REPORT TO THE PRESIDENT OF THE UNITED STATES

BY THE

ECONOMIC SURVEY MISSION TO THE PHILIPPINES

WASHINGTON, D. C.

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October 9, 1950

Dear Mr. President:

In compliance with your request we have considered the economic and financial problems of the Philippine Republic and submit herewith our Report and Recommendations.

Faithfully yours,

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I. SUMMARY AND RECOMMENDATIONS

At the request of the President of the Philippine Republic, President Truman appointed a United States Economic Survey Mission to consider the economic and financial problems of that country and to recommend measures that will enable the Philippines to become and to remain self-supporting. The Mission was instructed to survey all aspects of the Philippine economy, including agriculture, industry, internal and external finances, domestic and foreign trade, and public administration. The Mission was asked to give special consideration to immediate measures to help raise production and living standards in the Philippines. The Mission has had the full cooperation of the Philippine Government and of many individuals and organizations outside the Government. Their help has been invaluable in providing the Mission with the data necessary for its work.

Economic conditions in the Philippines are unsatisfactory. The economic situation has been deteriorating in the past two years and the factors that have brought this about cannot be expected to remedy themselves. Unless positive measures are taken to deal with the fundamental causes of these difficulties, it must be expected that the economic situation will deteriorate further and political disorder will inevitably result. Whatever is to be done to improve economic conditions in the Philippines must be done promptly, for if the situation is allowed to drift there is no certainty that moderate remedies will suffice.

The findings and recommendations of the Mission are summarized below and are presented more fully in the body of the Report. Technical memoranda for the guidance of the Philippine Government in determining policy on agriculture, industrial development, taxation, and public administration have also been prepared by the staff of the Mission.

Urgent economic problems

The basic economic problem in the Philippines is inefficient production and very low incomes. While a substantial recovery was made in production after the liberation, agricultural and industrial output is still below the prewar level. In the past ten years, however, the population has increased by 25 percent. Although home production has been supplemented by large imports, the standard of living of most people is lower than before the war. In Manila, real wages of industrial workers are about the same or slightly higher than in 1941; but in the provinces, real wages in agriculture are lower than before the war. For many agricultural workers, wages are wholly inadequate, in some instances less than one peso (50 cents) a day.

The finances of the Government have become steadily worse and are now critical. The Treasury has a large and mounting deficit, with taxes covering little more than 60 per cent of the expenditures. Obligations have been allowed to accumulate, warrants have been issued for which funds are unavailable, and school teachers have not been paid in some provincial areas. The new taxes voted by the special session of Congress cannot meet the budget needs and the cash position of the Treasury is becoming steadily worse. If the Central Bank is used to cover the large deficit of the Government it may lead to a new outburst of inflation, the burden of which will fall on those struggling for a living in a land of very high prices and very low incomes.

The international payments position of the country is seriously distorted and a balance has been maintained in recent months only by imposing strict import and exchange controls. The country has had an excessive volume of imports, which hitherto could be paid for out of very large dollar receipts from United States Government disbursements and accumulated dollar balances. These balances have been drawn down and receipts from the United States Government have been declining sharply. Greater difficulty will probably be experienced in the future in paying for imports. In the meantime, the volume of exports is less than before the war and can be expected to grow only gradually. Unless foreign exchange receipts are increased or excessive dependence on imports decreased, import and exchange controls will have to become even more restrictive.

Causes of the difficulties

While production in general has been restored to almost the prewar level, little of fundamental importance was done to increase productive efficiency and to diversify the economy. In agriculture, the area under cultivation was brought to the prewar level, and the livestock population partially restored. But almost nothing was done to open new lands for the increased population, to improve the methods of cultivation, or to better the position of farm workers and tenants. In industry, production was restored very much in the prewar pattern. While some new enterprises have been started, particularly in the past year, there has been little real progress in opening new work opportunities and in strengthening the economy. The country still relies too heavily on the export of a few basic agricultural crops--coconut, sugar and hemp--which provide a meager livelihood to most of the people engaged in their production.

The failure to expand production and to increase productive efficiency is particularly disappointing because investment was exceptionally high and foreign exchange receipts were exceptionally large during most of the post-liberation period. Too much of the investment went into commerce and real estate instead of the development of agriculture and industry; investment undertaken by Government corporations has unfortunately been ineffective. A considerable part of the large foreign exchange receipts were dissipated in imports of luxury and non-essential goods, in the remittance of high profits, and in the transfer of Philippine capital abroad. The opportunity to increase productive efficiency and to raise the standard of living in the Philippines in the postwar period has thus been wasted because of misdirected investment and excessive imports for consumption.

The inequalities in income in the Philippines, always large, have become even greater during the past few years. While the standard of living of the mass of people has not reached the prewar level, the profits of businessmen and the incomes of large landowners have risen very considerably. Wages and farm income remain lower than the economy can afford because of the unequal bargaining power of workers and tenants on the one hand, and employers and landowners on the other. Under such conditions any policy that keeps prices high has the effect of transferring real income from the poor to the rich. This is what has happened in the Philippines, where prices on the average are three and a half times as high as prewar. The inflationary conditions which have made this possible were caused by large budgetary deficits and an excessive creation of credit, much of it for the Government and Government corporations.

SUMMARY AND RECOMMENDATIONS

As a consequence of the inflationary conditions, along with insufficient production, the demand for foreign exchange to pay for imports, and to remit profits and transfer funds abroad has exceeded the current foreign exchange receipts from exports and United States Government disbursements. The foreign exchange reserves of the country, although still considerable, have been greatly reduced, confidence in the currency has been shaken, and a breakdown in international payments has been averted only by stringent import and exchange controls. The generally unfavorable economic and political environment and the fear of discrimination in the administration of import and exchange controls have the effect of discouraging foreign investment in the Philippines.

The high hopes of the Philippine people that with peace and independence, they could look forward to economic progress and a rising standard of living have not been realized. Because of the deteriorating economic situation, there is a widespread feeling of disillusion. Most agricultural and industrial workers have no faith that their economic position can or will be improved. Businessmen fear a collapse of the peso. The uncertainties created by these doubts are strengthened by the recent tendency toward unemployment resulting from the slowing up of construction and the sharp curtailment of imports. The economy shows little inherent capacity to overcome the difficulties with which it is faced.

There are officials in the Philippine Government who are aware of the dangers in this pervading economic unbalance between production and needs, between prices and wages, between Government expenditures and taxes, between foreign exchange payments and receipts. Some of them understand the reasons why these difficulties arose; but the measures that could halt the deterioration have not been put into effect. Inefficiency and even corruption in the Government service are widespread. Leaders in agriculture and in business have not been sufficiently aware of their responsibility to improve the economic position of the lower income groups. The public lacks confidence in the capacity of the Government to act firmly to protect the interests of all the people. The situation is being exploited by the Communist-led Hukbalahap movement to incite lawlessness and disorder.

The Government has thus far attempted to deal with some of these emerging problems through import and exchange controls and through price controls. Such measures are directed to the symptoms rather than the causes of economic disorder. At best, they are measures that can only delay a breakdown in the economy; they cannot remedy the fundamental ills from which the country suffers. A permanent solution to these problems will be found only through a determined effort on the part of the people and the Government of the Philippines, with the aid and encouragement of the United States, to increase production and improve productive efficiency, to raise the level of wages and farm income, and to open new opportunities for work and for acquiring land.

Recommendations

The Mission recommends that the following measures be taken:

1. That the finances of the Government be placed on a sound basis in order to avoid further inflation; that additional tax revenues be raised immediately in as equitable a manner as possible to meet the expenditures of the Government; that the tax structure be revised to increase the proportion of taxes collected from high incomes and large property holdings; that

the tax collecting machinery be overhauled to secure greater efficiency in tax collection; that a credit policy be adopted which will encourage investment in productive enterprises; and that fiscal, credit and investment policy be better co-ordinated to prevent inflation.

2. That agricultural production be improved by applying known methods of increasing the yield from all basic crops; that the Department of Agriculture and Natural Resources be adequately supplied with funds and the agricultural extension service expanded; that the agricultural college at Los Banos be rehabilitated and the central experiment station located there, with other stations at appropriate places throughout the country; that rural banks be established to provide production credit for small farmers; that the opening of new lands for settlement in homesteads be expedited and the clearance of land titles promptly assured; that a program of land redistribution be undertaken through the purchase of large estates for resale to small farmers; and that measures be undertaken to provide tenants with reasonable security on their land and an equitable share of the crops they produce.

3. That steps be taken to diversify the economy of the country by encouraging new industries; that adequate power and transportation facilities be provided as needed for further economic development; that a Philippine Development Corporation be established to co-ordinate all government corporations and enterprises and liquidate those that are ineffective; that financial assistance be made available to productive enterprises by the Corporation acting in cooperation with private banks; that the natural resources of the country be systematically explored to determine their potentialities for economic development; and that the present laws and practices with respect to the use of the public domain be re-examined.

4. That to avoid a further deterioration in the international payments position and to reduce the excessive demand for imports, a special emergency tax of 25 percent be levied for a period not to exceed two years on imports of all goods other than rice, corn, flour, canned fish, canned milk and fertilizer; that if such an emergency import levy is not possible under the Trade Agreement with the United States, either very heavy excise taxes should be imposed or a tax of 25 percent should be levied on all sales of exchange; that, as a safety measure, the present exchange and import controls be retained but their administration be simplified and liberalized and the full remittance of current earnings be permitted; that a Treaty of Friendship, Commerce and Navigation be concluded between the Philippines and the United States and the present Trade Agreement re-examined in the light of the new conditions.

5. That an adequate program of public health and improved education be undertaken, and better facilities for urban housing be provided; that the right of workers to organize free trade unions to protect their economic interests be established through appropriate legislation; that abuses in present employment practices depriving the workers of their just earnings be eliminated by legislation making mandatory direct payment of wages and retroactive monetary awards to workers; that a minimum wage for agricultural and other workers be established to provide subsistence standards of living.

6. That public administration be improved and reorganized so as to insure honesty and efficiency in Government; that the civil service be placed on a merit basis and civil service salaries raised to provide a decent standard of living; that the Philippine Government remove barriers to the employment of foreign technicians and take steps to improve

training facilities for technicians in the Philippines; and that in accordance with the request of the Philippine Government, the United States send a Technical Mission to assist the Philippine Government in carrying out its agricultural and industrial development, fiscal controls, public administration, and labor and social welfare program.

7. That the United States Government provide financial assistance of $250 million through loans and grants, to help in carrying out a five-year program of economic development and technical assistance; that this aid be strictly conditioned on steps being taken by the Philippine Government to carry out the recommendations outlined above, including the immediate enactment of tax legislation and other urgent reforms; that expenditure of United States funds under this recommendation, including pesos derived from United States loans and grants, be subject to continued supervision and control of the Technical Mission; that the use of funds provided by the Philippine Government for economic and social development be co-ordinated with the expenditure of the United States funds made available for this purpose; and that an agreement be made for final settlement of outstanding financial claims between the United States and the Philippines, including funding of the Reconstruction Finance Corporation loan of $60 million.

. . .

No one must expect that even so comprehensive a program as this will quickly or automatically remove all the ills of the Philippine economy. What it can do is to provide an environment in which the people of the Philippines can work out a reasonable solution of their problems. What they ultimately achieve will be determined primarily by their own efforts and by the devotion of the Philippine Government to the interests of all the people. The nation has the physical and human resources to accomplish this task with help from the United States. In the few years since independence, the Philippines has taken a leading position in world affairs and in the United Nations. With thorough measures to deal with its economic problems, it can take its rightful place as a prosperous and stable nation.

II. RECONSTRUCTION AND RECOVERY

The Philippines emerged from the war with most of its physical capital destroyed, damaged, or depleted. The farms and plantations which produced the food and export crops were run down and deficient in livestock and machinery. Factories and mines were either completely destroyed or put out of working order. Transportation facilities, roads, bridges, railroad lines and rolling stock, ships, wharves and warehouses were demolished. Power and communication facilities were severely damaged. In 1945, commerce and trade had virtually come to a standstill, without physical facilities or goods for doing business. Even the production of foodstuffs for local consumption was far below the meager requirements for the very low standard of consumption.

Recovery of production

The extent of economic disruption at the time of the liberation can be seen from a comparison of production in 1946 with a typical prewar year, 1937. Physical production in all forms in the Philippines in 1946 was less than 40 percent of the 1937 volume. In manufacturing, production was only 21 percent and in mining only 2 percent of the 1937 volume. In agriculture, total production in 1946 was 58 percent of the 1937 volume, with foodstuffs at about three-fourths and export crops at about one-fourth the prewar volume.

In the five years since liberation, considerable progress has been made toward restoring the economy of the Philippines. In agriculture, production in 1949 was 92 percent and in manufacturing, 21 percent of prewar. But in mining, production was still only 49 percent of prewar. The combined index for all types of physical production in 1949 on a 1937 base was 91.

Table 1. Index of Physical Volume of Production, 1938 to 1949

(1937 = 100)

Year	Combined Index	Agriculture 1/	Manufacturing 2/	Mining 3/
1938	98.2	85.3	109.1	129.4
1939	93.4	82.8	98.8	152.3
1940	109.9	98.0	117.1	165.0
1946	38.7	58.2	21.0	2.0
1947	75.6	79.5	77.5	16.8
1948	85.3	86.4	89.4	36.0
1949	91.3	92.2	94.7	49.1

Source: Central Bank of the Philippines

1/ Includes: palay (unhulled rice), abaca, leaf tobacco, maguey, corn, coffee, dry beans, and unshelled peanuts.
2/ Includes: copra resecada, coconut oil, centrifugal sugar, lumber, and cordage.
3/ Includes: gold, chromite, manganese, copper, and iron ore.

The recovery of production has been especially marked in the basic foodstuffs. The production of palay (unhulled rice) in 1949 exceeded the output of the good crop year 1937 and the ordinary crop of 1940. The production of corn in 1949 was more than in 1937, but less than in 1940. Commercial fisheries have not restored production to the prewar level, but sustenance and pond fishing have recovered rapidly. On the other hand, meat production was still far below prewar, although livestock population was growing.

Table 2. Production of Principal Foods, 1940 and 1949

(Thousand metric tons)

	1940	1949	Index 1949
Palay (unhulled rice)	2,363	2,491	105.4
Corn	572	534	93.4
Root crops	615	524	85.2
Fish and fish products 1/	170	226	132.9
Meat and poultry	237	165	69.6

Source: Central Bank of the Philippines.

1/ Includes sustenance and pond fisheries.

The recovery in manufacturing proceeded rapidly in 1947 and 1948. During 1949 progress was somewhat slower, but still quite marked. In mining, although the recovery of base metal production was relatively rapid after 1947, the index of total production of metallic minerals in 1949 was still less than half the prewar volume. Gold production in 1949, an important constituent of the index, was only 40 percent of the 1937 amount.

The production of export goods has also recovered, although less than production for home use. The volume of all exports in 1946 was only 23 percent of 1937; by 1949, the index had risen to 81. Copra and desiccated coconut are the major export commodities that have been able to maintain and exceed the prewar volume. Production of sugar, the principal prewar export in terms of value, has been hampered by the slow rehabilitation of sugar centrals, unfavorable weather conditions, and by dissident elements in some production regions. Abaca production is still suffering from disorganization of production and serious plant disease. Minor exports have been very slow in recovering and were only 37 percent of prewar in 1949.

Table 3. Volume of Principal Exports, 1937 and 1949
(Thousand metric tons)

	1937	1949	Index 1949
Desiccated coconut	40.7	57.6	142.0
Copra	236.5	528.7	222.0
Abaca	165.3	62.4	27.0
Sugar	871.0	415.0	47.5
Coconut Oil	163.3	61.3	38.1
Pineapple, canned	10.9	40.4	373.0
Chromite	80.8	246.7	305.3
Iron Ore1/	603.4	370.2	61.3
All others			37.0
Total			81.0

Source: Central Bank of the Philippines

1/ Production for export.

The period of rapid recovery in production seems to have come to an end in 1949. Production continues to grow, but only at a moderate pace. Although food crops will probably exceed the prewar volume this year, export crops are still considerably below prewar. Manufacturing production is close to the prewar volume; but mining production remains well below prewar. Five years after the war, the total physical volume of production apparently is still somewhat below the 1937 volume and considerably below the 1940 volume. While production has recovered to a significant extent, it can hardly be regarded as having reached a satisfactory level.

Postwar investment

To resume a normal economic life, it was not only necessary to rebuild the physical facilities of production, but people had to be brought back to their work, and trade and communication facilities had to be restored. Stocks of goods had to be reconstituted at every stage of production and trade. The provision of minimum facilities for every-day life--housing, home furnishing, textiles and other consumer goods--was no less important than the provision of seed and work animals for agriculture, and raw materials and machinery for forestry, mining, and manufacturing. At the close of the war, the Philippine economy was a great void; and this void had to be filled in one way or another to enable production to get started.

The magnitude of the task of providing the physical facilities for restoring production is indicated by the amount of investment that was undertaken in the postwar years. From 1946 to the end of 1949, approximately ₱4.0 billion of new investment was made in all sectors of the economy. While some of this investment was unimportant or even ineffective, a considerable part was essential for restoring agriculture, industry, transportation, public utilities, public works, and for providing the physical facilities to resume production and trade.

Even in agriculture, considerable investment was necessary to the recovery of production. In 1940, the total area in crops was reported to be 5.1 million hectares (1 hectare = 2.47 acres). During the war much of the land went out of cultivation, but the actual area cultivated in 1945

is not known. In 1946, only 3.9 million hectares was reported as under cultivation. The restoration of idle land to productive use entailed investment in reclaiming and clearing land, rebuilding terraces and irrigation, and in other forms of land preparation. While the amount of land restored to cultivation was quite large, the total area under cultivation by 1950 was still slightly less than in 1940.

Table 4. Area Under Cultivation for Principal Crops

(Thousand hectares)

Food Crops	1940	1946	1949
Palay (unhulled rice)	2,080	1,650	2,164
Corn	913	571	866
Fruits and nuts	201	186	203
Root crops	178	148	172
Beans and vegetables	49	30	49
Other foods	21	18	32
Total food	3,442	2,603	3,486
Export crops			
Coconut	1,051	960	965
Sugar cane	230	29	129
Abaca	292	272	283
Tobacco	58	27	39
Total export	1,631	1,288	1,416
Total all crops	5,073	3,891	4,902

Source: National Economic Council

The other major form of investment in agriculture was for farm animals. The number of livestock and of poultry was greatly reduced during the war. At the beginning of 1946, the number of livestock was less than 40 percent and of poultry only 27 percent of the 1940 number. The farms were depleted of work animals and of breeding stock for the production of meat and poultry products. By the beginning of 1950, large livestock had been restored to about two-thirds, and small livestock and poultry had been restored to the full extent of their prewar number.

Table 5. Number of Livestock and Poultry

(Thousand head)

	1940	1946	1950	Postwar Increase
Carabao	3,015	1,389	2,152	763
Cattle	1,396	443	735	292
Horses	343	151	222	717
Hogs	4,447	1,461	4,678	3,217
Goats	420	183	336	153
Sheep	40	19	29	10
Total livestock	9,661	3,646	8,152	4,506
Poultry	27,775	7,535	28,386	20,851

Source: Bureau of Animal Industry.
Data as of January 1. Number for 1950 estimated.

As the index of production shows, the destruction was far greater in industry than in agriculture. Sugar mills had been almost completely destroyed. Sawmills and other facilities for timber and lumber production had to be replaced. Mines had to be reopened and new equipment had to be installed. In manufacturing, plants had to be rebuilt, machinery acquired, and raw materials restocked. New investment was needed in transportation and in public utilities. It is probably not an exaggeration to say that more than three-fourths of the productive facilities of the Philippines, outside agriculture, had to be restored in the postwar period.

It is interesting to note that investment in commerce and trade was considerably larger than in any other sector of the economy. This includes not only retail and wholesale and export and import trade, with their merchandising and warehousing facilities, but also all the service industries, and real estate and finance. The resumption of business required new construction, furniture, fixtures and office equipment. Far more important than the destruction was the almost complete depletion of inventories during the years of occupation. The most important single type of investment was in inventories to restock business at every level of trade, from small rural merchants to great importing and distributing firms.

Destruction of public buildings and public works was severe, and new facilities were necessary to permit the economy to function. To some extent this reconstruction was undertaken by United States agencies as part of the Philippine rehabilitation program. Far larger in amount, was the construction undertaken by the Philippine Government, part of which was paid for by the War Damage Commission. The public works reconstruction included roads, bridges and other highway construction; piers and other harbor construction; waterworks; warehouses and slaughterhouses; and public buildings.

The great destruction in Manila, Cebu and the lesser destruction in other cities necessitated considerable investment in residential construction for new building and repairs. The claims filed with the War Damage Commission show how extensive the destruction was. Much of the available construction equipment, building materials and labor had to be applied to residential construction. Even so, housing facilities for low income urban workers are wholly inadequate. During the three years 1947-49, the volume of construction in Manila was at a rate above three times prewar. Since 1948, the volume of building has been falling off.

The financing of such a large amount of investment involved considerable strain on the economy. The greatest source of funds was the large profits in business and agriculture which were re-invested. War damage payments, actual and anticipated, were important in providing finance and in securing domestic and foreign credit. The investment expenditures of the Philippine Government were also large in amount. Bank credit and foreign investment were of special importance in the early postwar years. Individual savings from non-business sources do not seem to have been large.

Inadequacy of production

The task of rebuilding the Philippine economy was prodigious and the amount of resources devoted to this end has been very large. Despite the large investment, however, what has been done so far involves no more than restoration and reconstruction. While the aggregate physical production in 1950 will be nearly the same as in 1937, this is an unsatisfactory level of production for the Philippines. With a population more than 25 percent larger the Philippines is now probably producing less than the volume of agricultural and industrial goods it produced thirteen years ago.

Table 6. Estimated Investment in the Philippines, 1945-1949

(Million Pesos)

1. Agriculture, Forestry and Fisheries			
(a) Agriculture			
(i) Area brought into cultivation	237		
(ii) Livestock	437		
(iii) Agricultural implements	25		
(iv) Direct government investment in agricultural production	55	754	
(b) Sugar mills		144	
(c) Forestry and products		57	
(d) Fisheries and ponds		35	990
2. Industry, Transport and Utilities			
(a) Manufacturing		474	
(b) Mining		64	
(c) Transport		198	
(d) Utilities		173	909
3. Commerce and Trade			
(a) Construction		291	
(b) Furniture, fixtures and equipment		91	
(c) Inventories		873	1255
4. Public Works and U.S. Construction			
(a) Public works		152	
(b) U.S. construction		98	250
5. Residential and Other Non-Business Construction			503
Total			3907

Source: Central Bank of the Philippines.

Note: Estimates are on a net expenditure basis except for agriculture which is on a physical property basis.

There is no indication that production is more diversified or productive efficiency greater than before the war. Much the same pattern of production has been restored in agriculture and industry that existed before the war. In agriculture, productive efficiency as measured by output per hectare is almost precisely what it was before the war. There is reason to believe, from statistical data and from direct inquiry, that industrial production is becoming slightly more diversified, but this is little more than a beginning. No noteworthy change seems yet to have taken place in industrial production or in industrial efficiency.

It is of fundamental importance to the well-being of the Philippine people to determine why so little progress has been made in production and in productive efficiency in a period of such rapid change as the postwar years, when large amounts were being invested in the reconstruction of the Philippine economy. It is striking to note that the explanations are the same as those adduced for the backwardness of the Philippine economy before the war: (the availability of cheap imports, the preference for investment in real estate, commerce and trade, and the failure to apply better technical methods in agriculture and industry.)

From 1946 to 1949, imports in the Philippines were exceptionally large, averaging nearly 2.5 times the prewar volume. This large flow of imports, made possible by United States Government disbursements, was an important factor in sustaining the consumption of the Philippines while production was being restored and in making possible the devotion of large resources to investment for reconstruction. At the same time, the easy availability of imports hampered the domestic production of similar goods. This was especially so because imports were even cheaper relative to home prices and home costs after the war than they had been before the war.

While the amount of investment in the postwar years was very large, ranging from 20 to 25 percent of the gross national product, a very large part of the total was not directly related to increasing production in agriculture and industry. More than 40 percent of total investment was for commerce and trade and for residential construction. Virtually all of the investment in agriculture was for bringing land back into cultivation and partially restoring the livestock population. Very little was used for opening new lands or for improving production methods. In industry, by far the greater part of the investment was to restore sugar mills, sawmills, mines and various manufacturing establishments, producing much the same goods as before the war. Government investment for agricultural and industrial purposes was generally costly and ineffective.

III. PRICES, WAGES AND NATIONAL INCOME

The early postwar years in the Philippines were a period of great scarcity of goods. This was gradually overcome as production expanded and as imports flowed into the country in large amount. Despite the rapid rise in the national income in terms of pesos, prices declined with the improvement in the supply situation. Because wages after the war were not as high as prices, except for industrial workers in Manila, the distribution of income appears to have become more unequal. The inflation of money incomes in the Philippines relative to the United States encouraged an excessive demand for imports and contributed to the present difficulties with regard to international payments.

Behavior of prices

The price inflation that existed in the Philippines at the time of the liberation was the inevitable consequence of the occupation. Production decreased, because many of those who would ordinarily have been at work in agriculture, trade and industry were devoting themselves to the struggle against Japan. Where production continued, it was less efficient than before the war. Even of the diminished war-time production, a significant part was taken for supporting the occupying forces and for export to Japan. Supplies of import goods were not available so long as the Philippines was cut off from trade with the United States and the rest of the free world. In the meantime, the occupation and the battle for liberation resulted in a large inflation in the quantity of money.

At the time of liberation, home production was greatly reduced, there were virtually no imports, and distribution within the country, between rural and urban areas, was almost completely broken down. Because of the shortage of goods and the large increase of currency in circulation, prices were very high. In 1945, the average of the cost of living in Manila was 776 on a 1937 base, reflecting the painful scarcity of foodstuffs and other necessities in a low income urban community.

Once production began to recover and the flow of imports came in large volume, the cost of living began to fall rapidly. In 1946, when imports were twice the prewar volume and agricultural production was still only little more than half of prewar (for foodstuffs, probably 70 percent), the cost of living in Manila fell by 25 percent from the 1945 average. In 1947, when agricultural production was about 77 percent of prewar and imports were near the postwar peak--more than 2.5 times the 1937 volume--the cost of living fell an additional 25 percent from the 1946 average.

At the end of 1947 and the beginning of 1948, the cost of living in Manila entered a phase of approximate stability with a tendency towards a slow decline. The index for the entire year 1948 was only 6 percent below 1947, and the range between February and December 1948 was between 2 percent above and 5 percent below this average. The 1949 average for the cost of living was about 6 percent below the 1948 average. In the first half of 1950, there was still no indication of a significant upward movement in the cost of living, despite the rise in prices abroad and the restriction of imports.

The cost of living index in Manila includes a number of relatively stable elements, such as rents and utility services, and for this reason was less affected by postwar scarcities than the index of food costs. On the other hand, the retail price index of important commodities includes a large element of import goods whose prices were not affected by the

special conditions existing in the Philippines and in Manila. After 1945, when imports became more plentiful in certain categories of goods, this index was much lower than either that of the cost of living or of food costs.

Table 7. Index Numbers of Cost of Living, Food Costs, and Retail Prices in Manila

(1937 = 100)

	Cost of Living	Food Costs	Retail Prices 1/
1945	776	945	985
1946	585	729	571
1947	434	470	344
1948	410	437	329
1949	385	405	293

Source: Central Bank of the Philippines.

1/ Adjusted from 1941 base by multiplying relatives for each year by 1.12

The wholesale prices of domestic goods are of particular interest because they reveal the different degree of monetary demand in the Philippines and in the United States. Domestic goods may be divided into two types: those produced for the home market and those produced for export. The index of wholesale prices in Manila of domestic goods for the home market fell in much the same way as the cost of living. There was a sharp drop in 1946 and 1947 and a slower fall in 1948 and 1949. On the whole, the index of wholesale prices of home consumed goods remained considerably higher than any of the indexes of prices paid by consumers.

Export prices of Philippine products, on the other hand, reflected the demand in world markets, particularly in the United States. In 1946, export prices were still relatively low (276 on a 1937 base). In 1947 and 1948 they rose very sharply reflecting the free movement of prices after abolition of price control in the United States. After 1948 there was a gradual decline, along with the fall in commodity prices all over the world. Though there has been a considerable rise since the recovery of industrial production in the United States late in 1949 and again after the beginning of the conflict in Korea, export prices are still below the peak levels of 1948.

Table 8. Wholesale Prices of Home Produced Goods: Home Consumed Goods and Exports

(1937 = 100)

	Home-consumed goods	Export Goods
1946	895	276
1947	530	356
1948	517	422
1949	485	314

Source: International Financial Statistics, August 1950, pp. 120-21

Behavior of wages

The manner in which prices declined from the high scarcity levels at the time of liberation to a more or less stable plateau since 1949 contrasts with the low level of money wages at the time of liberation and the rise to a more or less stable plateau since 1947. The lag in the rise of wages indicates a protracted period during which real wages were considerably below the prewar level; and the relative disparity between the present level of prices and the present level of wages in some regions indicates that many workers have not yet reached their prewar level of real wages.

In 1945, after the liberation, daily wages of skilled and unskilled workers in industrial establishments in Manila were slightly more than two and a half times the 1941 level, although the cost of living index for the year was nearly seven times the 1941 level. Between 1945 and 1946, the annual average of daily wage rates in industry in Manila rose by nearly 40 percent for unskilled workers and by about 15 percent for skilled workers. In 1947, the annual average of daily wage rates in industry in Manila rose by about 12 percent for skilled workers and by 3 percent for unskilled workers. Since 1947, wage rates in industry in Manila have remained quite steady, with a rise of 1 percent for skilled workers during the past two and a half years.

Table 9. Index of Average Daily Wage Rates of Industrial Workers in Manila 1/

	Skilled	Unskilled
1941	100	100
1945	255	264
1946	294	365
1947	329	376
1948	326	378
1949	332	395

Source: Bureau of Census and Statistics.

1/ Base wages: ₱2.29 for skilled and ₱1.24 for unskilled workers in 1941.

Agricultural workers constitute by far the largest group of workers in the Philippines. The wage rates for agricultural workers show three distinctive characteristics: the low level in absolute terms and relative to non-agricultural workers, the great regional variation in agricultural wages, and their responsiveness to changes in the prices of agricultural products.

In 1941, the average wage rate for all agricultural workers, excluding the value of meals or other payment in kind, was 56 centavos per day. They ranged from a low of 37 centavos per day in the Eastern Visayas to a high of 67 centavos a day in Central Luzon. The average for all agricultural workers was slightly more than 45 percent of the average daily wage rate for unskilled industrial workers in Manila. While wage rates for agricultural workers rose sooner and more sharply than for non-agricultural workers, they are now considerably lower than they were in 1947. Compared with 1941, the average rise in agricultural wages in 1949 was considerably less than for industrial workers in Manila.

Table 10. Daily Wage Rates for Agricultural Laborers by Regions 1/

(1941 = 100)

	1941	1947		1948		1949	
	Wage rate (Pesos)	Wage rate (Pesos)	Index	Wage rate (Pesos)	Index	Wage rate (Pesos)	Index
Philippines	0.56	2.05	366	1.66	296	1.73	309
Luson: Ilocos-Mountain region	0.53	2.06	389	1.40	264	1.67	315
Luson: Cagayan Valley, including Batanes	0.61	1.44	236	1.43	234	1.76	289
Central Luson, including Zambales	0.67	3.00	448	2.35	351	2.04	305
Southern Luson, including Marinduque and Mindoro	0.66	3.06	464	2.00	303	2.02	306
Southeastern Luson, Bicol	0.52	2.05	492	1.42	273	1.51	290
Eastern Visayas	0.37	1.50	405	1.25	338	1.27	343
Western Visayas	0.43	1.38	321	1.13	263	1.37	319
Mindanao, including Sulu	0.60	1.80	300	1.77	295	1.86	310

Source: Bureau of the Census and Statistics.

1/ Wage rates are average of daily money rates. Aside from money wages, agricultural laborers are furnished with two free meals.

It is clear from the data on wages and prices, even when allowance is made for the usual doubts regarding index numbers, that until 1948, real wage rates were below the prewar level for industrial workers in Manila and agricultural workers in the provinces. If average daily wage rates are adjusted for the cost of living index for a Manila working class family, it is found that unskilled workers in Manila did not reach their prewar level of real wages until 1948 and skilled workers did not reach this level until the end of 1949, and that agricultural workers have even now not reached the prewar level of real wages.

Table 11. Real Wage Rates for Different Classes of Workers 1/

	Industrial Workers in Manila		Agricultural Workers
	Skilled	Unskilled	
1940	—	—	—
1941	100.0	100.0	100.0
1945	36.8	38.1	—
1946	56.3	69.9	—
1947	84.8	96.9	94.3
1948	89.1	103.3	81.0
1949	96.5	114.8	89.8

1/ Based on cost of living for a working class family in Manila, and not necessarily representative of the cost of living for agricultural workers. Price and wage data from Tables 7, 9 and 10.

National income

The high prices that prevailed in the Philippines from the liberation to the middle of 1949 were thus gradually lowered as production and imports increased. In this process, however, prices became stabilized at a very high level relative to the prewar period and relative to the United States. This much higher level of prices has manifested itself in a great expansion of the gross national product in terms of pesos, but not in goods and services produced. In the Philippines, gross national product, including payments from the United States for past and present services, was in excess of ₱5.3 billion in 1949, nearly 4.5 times that of 1938. The level of physical production did not much exceed 90 percent of prewar; and even if allowance is made for the greater volume of services (including those paid for by the United States), total output of goods and services could not have been more than 10 percent above prewar.

Table 12. Gross National Product and Payments from the United States Government, 1938 and 1949

(Million Pesos)

	1938	1949
Gross National Product and payments from U.S. Govt.	1,204	5,341
Gross national product	1,163	4,807
Product of agriculture other than forestry	534	2,520
Crops and products thereof	482	2,017
Chiefly for export	231	634
Livestock and products	52	378
Farm construction and increased hectarage	—	125
Product of forests, mines, and factories	222	856
Value added to imported goods, not included elsewhere	137	505
Services, not included elsewhere	270	926
Payments from U.S. Government not included in gross national product 1/	41	534

Source: Central Bank of the Philippines, adjusted by inclusion of additional items in 1949. Official estimate for 1949 is ₱5,160 million.

1/ Does not include ₱113 million expenditure in 1949 by U.S. Army for material and labor; this amount has been included elsewhere in gross national product.

The large differences between the rise in wages and prices indicate that the level of profits was exceptionally high during the period 1945 to 1949. This is borne out by the available data on corporate profits and the large volume of investment financed by retained profits in business and agricultural enterprises. These profits and the lag of wages behind prices have meant that real income in the Philippines since the war has been redistributed to the disadvantage of labor and other low income groups.

The inflated national income in terms of pesos has also affected the international payments position of the Philippines. With the high peso income and the relatively low level of dollar prices, imports have been cheap and attractive. This has been an important factor in the excessive volume of imports in recent years. In addition, because of the relatively large role of foreign firms in the business life of the Philippines, the inflated level of national income and of business profits, has added materially to the amount of profits that were transferred abroad. The large profits of Philippine nationals have also been accompanied by unusually large savings held in the form of dollar assets.

The economy of the Philippines is still generating inflation which adversely affects the payments position of the country. The large balance of payments deficit in the years when there was no serious unemployment is a clear indication that total expenditure in the Philippines, for home goods and for imports, was much more than the value of the production of the Philippine economy, including the equivalent of the disbursements of the United States Government.

IV. GOVERNMENT FINANCES

A major cause of the continued high level of prices and of lack of balance in the Philippine economy has been the failure of the Government to collect adequate revenues from taxation to meet current expenditures and to finance the large investment outlay of the Government enterprises. As a consequence, the Government has relied excessively on bank credit. More recently, as the deficit has grown and continued, the Government has had difficulty in finding the means to meet its day-to-day obligations.

Government expenditures and receipts

The expenditures of the national government, excluding non-operating items, have risen steadily from ₱213 million for the fiscal year ended June 30, 1946 to an estimated ₱502 million for the fiscal year 1950. The important categories of expenditure are for national defense, maintenance of law and order, public education and various programs for economic development and investment. In the fiscal year 1950, expenditures for these purposes constituted 79 percent of the total national government expenditures. Other services of the Government, including some of great importance to the well-being of the people, are provided for on a scale that can hardly be regarded as adequate.

Table 13. Expenditures of the National Government, 1946-50*

(Million Pesos)

Expenditures1/	1946	1947	1948	1949	1950**
National defense	34.8	25.1	55.4	60.1	58.4
Maintenance of law and order	2.0	44.1	33.4	49.0	51.4
Public education	53.4	76.8	76.2	129.9	134.6
Economic development2/	21.5	40.8	54.4	61.6	79.6
Investments	7.2	93.8	26.6	13.2	69.8
All other3/	94.5	100.4	111.8	111.3	108.4
Total	213.4	381.0	357.8	425.1	502.2

Source: General Auditing Office.

* Fiscal years ending June 30 of the year given.
** Estimated.

1/ Does not include as expenditures the obligation amounting to approximately 300 million pesos assumed by the Government on account of "back-pay" to employees. This obligation is reflected in the outstanding public debt.
2/ Primarily expenditures on roads and construction.
3/ Excludes contributions to sinking funds and transfers to Depositary Fund.

The provinces, cities and municipalities have relatively restricted functions compared with those performed by local governments in other countries. Their aggregate expenditures were ₱171 million in 1949. The local governments depend to a significant extent on allotment of funds from the national government to meet their expenditures. In the fiscal year 1949 all local governments combined received 47 percent of their revenue from these sources.

Aggregate expenditures of the national and local governments have not been so large as to have caused economic difficulties, if other policies had been reasonably well suited to the needs of the economy. In the fiscal year 1949, the expenditures of the national and local governments combined, after eliminating inter-governmental transactions, were only about 11 percent of the gross national product, including transfer income from abroad.

There is little room for a net reduction in public expenditures. No doubt, some savings could be made by more careful budgeting and more economical expenditure, particularly in connection with public works. A considerable reduction could be made in the outlay on investment through Government corporations. The savings in this form would not be enough to meet the increased expenditures necessary for more adequate services in agriculture, social welfare, public health and some forms of education, and for a modest adjustment of Government salaries.

The principal cause of the financial difficulties are attributable to the failure to strengthen the revenue system, through levying new taxes and greater efficiency in tax collection, to meet the expenditures of the Government. In a period of rapidly expanding national income when the collection of taxes should involve little economic difficulty and when large revenues are essential to maintain economic stability, the Government has constantly taken too small a portion of the gross national product in taxes. In 1949 when domestic finances and international payments were becoming more acute, total tax revenues of the national Government were only about 8 percent of the gross national product, including transfer income from abroad.

The tax structure of the national Government has not been designed to reflect adequately in tax revenues the rapid rise in the national income, the great increase in profits and other large incomes, and the increase in wealth of the business and land-owning class. Nor is the tax system designed to facilitate efficient assessment and collection. Instead, there has been too much dependence on a miscellany of taxes yielding small amounts of revenue and not closely related to the ability of the taxpayer to contribute to the cost of government. This has also been true of the taxes of local governments.

Table 14. Consolidated Statement of National Government Receipts[1/] Fiscal Years 1946-50

(Million Pesos)

	1946	1947	1948	1949	1950*
Revenue from taxation	54.5	186.1	267.2	311.0	273.5
Import duties	4.1	16.8	24.5	28.6	25.7
Excise tax	25.9	84.0	115.9	133.9	120.2
License and business tax	16.6	67.4	103.3	133.7	110.5
Income tax	7.1	19.9	40.7	48.0	52.5
War profits tax	—	.1	.3	.2	2/
Wharfage fees	.1	1.9	2.6	2.8	2.5
Documentary stamp tax	1.2	4.4	6.5	6.8	6.3
Tonnage dues	.1	.3	.5	.5	.6
Immigration tax	.4	.5	1.4	1.3	1.1
Inheritance tax	.4	2.2	2.5	2.0	2.7
Franchise tax	.3	.8	1.1	1.2	1.3
Residence tax	.9	2.7	2.7	2.9	4.0
Export tax	2/	—	—	—	—
Apportionment of internal revenue and motor vehicle tax to local governments	-2.5	-14.9	-34.7	-50.9	-54.0
Sugar processing tax	58.1	12.6	—	—	--
Incidental revenue	.9	3.2	5.1	7.1	6.5
Earnings and other credits	13.8	61.8	87.9	64.7	49.8
Operating income of commercial and industrial units;	3.8	12.0	15.8	16.4	15.2
Income incidental to functional activities;	4.9	11.8	21.0	23.1	23.3
Sales of property, supplies, and materials acquired from U.S. Foreign Liq. Com.	—	24.1	44.9	12.2	1.4
All other	5.1	13.9	6.3	12.9	9.9
Repayment of advances	--	.1	.8	2.1	1.5
Total	127.4	263.8	361.0	384.8	331.3

Source: Fiscal years 1946-1948 from Auditor General's Report; Fiscal years 1949-1950 from Auditor General's office.

* Estimated.

1/ Includes general, special and bond funds; excludes proceeds from foreign and domestic loans, and transfers from Exchange Standard and Treasury Certificate funds.

2/ Less than ₱50,000.

The present financial difficulties of the Government also give rise to the question whether the distribution of functions between the national and local governments and the allocation of tax sources are properly suited to the needs of the country. The great dependence of local governments on allocations from taxes levied by the national government may discourage them from raising adequate revenue from tax sources over which they have jurisdiction.

Financing the deficit

Mounting national expenditures combined with the inadequate rise, and more recently a decline, in tax revenues has resulted in a succession of large deficits in every postwar year except the fiscal year 1948. The cumulative postwar deficit is estimated at ₱461.4 million. The receipts include sugar processing tax refunds by the United States Government of ₱70.7 million in 1946 and 1947; and ₱82.5 million derived from the sales of property and supplies transferred by the United States. Without these non-recurring receipts the cumulative deficit would have been ₱614.6 million.

Table 15. National Government Receipts, Expenditures and Deficit 1946-50

(Million Pesos)

Fiscal Year	Receipts	Expenditures	Annual Deficit	Cumulative Deficit 1/
1946	127.4	213.4	86.1	136.1
1947	263.8	381.0	117.2	253.3
1948	361.0	357.8	(3.1)*	250.2
1949	384.8	425.1	40.3	290.5
1950 (estimated)	331.3	502.2	170.9	461.4

* Surplus

1/ From February 25, 1945.

In the early years following liberation, the deficits of the Government were met by drawing on funds held abroad, by transfers from the currency reserves, and by borrowing from the United States Reconstruction Finance Corporation. As these sources of funds were exhausted, the Treasury found it necessary to have increasing recourse to the banking system. Government securities have been sold to the banks to be used as a substitute for cash reserves, and a budgetary loan has been secured from the Central Bank.

Table 16. Means Through Which the Deficit Was Financed
(February 25, 1945 - June 30, 1950)

	Million Pesos
Budgetary Loan from the Central Bank	44
U.S. Reconstruction Finance Corporation Loan	120
Rehabilitation and Development Bonds	87
Philippine Treasury Bills	15
Exchange Standard Fund	62
Treasury Certificate Fund	50
Other Resources, Net	83
Cumulative Deficit	461

There is no indication that this serious cash position of the national government will be alleviated in the near future. The budget for the fiscal year 1951 shows a large prospective deficit, even after allowance is made for the new taxes and tax increases voted in the special session of Congress in August 1950.

GOVERNMENT FINANCES

Table 17. Summary of Budget for Fiscal Year 1951*

Receipts	
Estimated receipts from taxation, including receipts from new revenue measures enacted at Special Session	₱259,360,000
Incidental revenue (average 1948-50)	6,200,000
Earnings and other credits (average 1948-50)	50,000,000
	₱315,560,000
Expenditures	
Appropriations to September 1, 1950	341,310,000
Additional expenditures not yet appropriated 1/	70,000,000
Special funds expenditures (average 1948-50)	50,000,000
Expenditures for Government corporations and enterprises (average 1948-50)	45,000,000
Estimated expenditures	₱506,310,000
Estimated deficit	₱190,750,000

* Estimated on the basis of data available on September 1, 1950.

1/ Based on current rate of expenditures and estimated increase in some expenditures.

The mounting deficits of the Government during these years of high national income and of inflationary pressure is indicative of the lack of a forceful policy on government finance. It indicates a failure on the part of the Government to recognize its responsibility to levy taxes and to provide an administrative enforcement staff that can collect taxes. It indicates a failure on the part of the public to appreciate the grave monetary and economic dangers that flow from a breakdown of orderly government finance.

Finances of Government Corporations

To appraise the full effect of government finances on the Philippine economy it is necessary to take account of the financial operations of the Government Corporations and enterprises. Excluding the Philippine National Bank, these undertakings comprise 34 diverse enterprises with total assets of nearly ₱800 million.

The capital accounts of the Government corporations and enterprises, excluding the Philippine National Bank, increased by ₱288 million from July 1, 1945 to June 30, 1950. The increase in capital accounts came from three sources: subscription of capital or loans by the Government, direct borrowing by the corporations and enterprises, increase in surplus and undistributed profits resulting from current operations. The new capital subscribed or loans made by the Government, reflected in budgetary expenditures, amounted to ₱208 million. Of this sum, ₱113 million represents the

capital provided by the Government for the Rehabilitation Finance Corporation. Of the total capital provided by the Government since the end of the war, ₱73 million was in the fiscal year 1950. In addition, approximately ₱80 million was raised in new capital funds from other sources, largely from the Central Bank and the government-owned Philippine National Bank.

The current operations of the Government corporations and enterprises show a combined net loss of ₱1.9 million in the fiscal year 1950. For the whole period 1946 to 1950, however, they show a combined net profit of ₱35.6 million. The current operations of the Government corporations and enterprises do not significantly affect the Philippine economy. What is significant for this purpose is to secure the greatest economy and efficiency in operation, since the greater number of these enterprises are in fact ordinary business undertakings engaged in trade and production. The very large number of such enterprises now operating at a loss (19 of the 34) shows the need for thorough reconsideration of the scope of government enterprise and reorganization of the management.

The more important aspect from the point of view of finance is the capital transactions. The large sums spent for investment by the Government corporations and enterprises have added to the problems of government finance. Whether provided through the Government or from the banks, the large sums have resulted in inflating the money supply. The continued financing of Government investment in the same form will contribute to a continuation of the inflationary pressure.

Need for tax reform

The Government of the Philippines is now faced with a critical situation. The prospective budget deficit for 1951 will be exceptionally large unless additional new taxes are enacted. There is an urgent need for raising ₱200 million annually in additional revenue beyond the new taxes voted in the recent special session of Congress. Unless these additional revenues are secured, the Government will be driven once more to depend on the credit creating facilities of the Philippine National Bank and the Central Bank to meet its pressing obligations. Such an inflationary means of financing will be a grave threat to financial stability. To avoid this threat, it is imperative that the increased revenues begin to flow into the Treasury by January 1, 1951.

Changes are also needed in the tax system to divide the tax burden more equitably between high and low income groups. Under the present system only about 15 percent of the National Government's revenues are derived from income and profits taxes. The remaining 85 percent comes mainly from excise and sales taxes and other forms of revenue that give little weight to ability to pay as a criterion for collecting taxes. A program of tax reform is suggested in Part II of the Report.

V. MONETARY AND CREDIT POLICY

Monetary and credit policy in the Philippines during the postwar period has reflected the pressures generated by the budget deficit, the fluctuations in monetary reserves, and the large volume of investment. The effect of the loss of reserves on the supply of money has been off-set in considerable part by the almost continuous growth of credit to the government and to business. A policy of easy credit has contributed in part to the inflationary pressures that underlie the present financial difficulties.

Changes in money supply

Before the war, total money supply, currency and demand deposits, never exceeded ₱300 million. While reliable data are not available, the inflation of currency is reported to have reached staggering proportions in the latter part of the Japanese occupation. When liberation came and occupation currency was outlawed, the economy for a brief period had an inadequate supply of pre-war currency. The supply was rapidly increased by the issue of "Victory" notes, a large proportion of which was in effect bought by the United States with dollars and used to pay the expenses of the armed forces and other agencies. At the end of December 1945, the money supply had reached ₱1,120 million, about four times the prewar level.

Over the four-year period from 1946 to 1949, there was little net change in the money supply but there was considerable change in its composition. Currency in circulation declined by ₱310 million, while peso demand deposits increased by ₱227 million. The moderate change in the total money supply reflected chiefly two opposing forces: an adverse balance of payments, tending to reduce the supply of money, which was not quite offset by a growth of bank credit, tending to increase the supply of money. The change in the composition of the money supply to a smaller proportion of currency and a larger proportion of deposits reflected the gradual restoration of banking and business, and enabled the banks to expand credit despite the balance of payments deficit. While the supply of money showed little net change over the postwar period, at about four times the prewar average, the value (but not the volume) of goods produced and imported increased throughout the period from three times prewar in 1946 to more than four and one-half times prewar in 1949.

Prior to the establishment of the Central Bank in 1949, the Philippines operated on a dollar exchange standard with a 100 percent reserve of foreign exchange against the currency. The effect of a change in dollar reserves on the money supply was moderated to some extent by the action of commercial banks which varied their balances abroad and their domestic reserves to offset in part the impact of a balance of payments deficit or surplus. In 1946, there was a substantial decline in dollar reserves and in the money supply. In 1947 and 1948 there was some increase in dollar reserves of the Treasury, but this was offset by a decrease in the net dollar holdings of the commercial banks. Nevertheless, the money supply increased substantially, principally in the form of deposits.

The Central Bank Act, approved June 15, 1948, eliminated the requirement of a 100 percent reserve of dollar exchange against the currency and required the Central Bank instead to maintain a reserve adequate for meeting balance of payments deficits. The adverse balance of payments in 1949 which reduced the monetary reserves by ₱322 million did not bring about a significant reduction in currency. The heaviest losses from the adverse balance of payments occurred in the latter part of 1949, but currency in

Table 18. Money Supply of the Philippines, 1940-1950[1/]

(Million Pesos)

End of Period	Notes and coins in circulation[2/]	Peso Demand Deposits	Total
1940 - December	144	134	279
1941 - June	146	149	295
1945 - December	882	238	1,120
1946 - December	539	401	940
1947 - December	558	457	1,015
1948 - January	551	448	999
February	541	460	1,001
March	539	492	1,031
April	542	479	1,021
May	518	451	969
June	526	600	1,126
July	521	646	1,167
August	533	603	1,136
September	540	572	1,112
October	555	616	1,171
November	558	627	1,185
December	576	618	1,194
1949 - January	546	624	1,170
February	560	595	1,155
March	561	563	1,124
April	580	575	1,155
May	545	555	1,100
June	530	551	1,081
July	517	529	1,046
August	513	538	1,051
September	541	541	1,082
October	568	525	1,093
November	573	502	1,075
December	572	465	1,037
1950 - January	558	498	1,056
February	569	491	1,060
March	577	498	1,075
April	575	519	1,094
May	570	540	1,110
June	577	531	1,108

1/ Money supply consists of currency issued minus cash in Treasury vaults and cash in banks; plus the peso demand deposit liabilities of banks, excluding the national government deposits and interbank deposits, but including unused overdraft lines and manager's, cashier's and certified checks.

2/ Adjusted to include the ₱50 million issued on December 31, 1946, which was taken up in the records of the Central Bank on January 31, 1949.

circulation increased and peso demand deposits declined only slightly as the growth of bank credit provided funds to replace the sums remitted abroad. In fact, demand deposits of private individuals and business enterprises increased somewhat, as there was a considerable fall in the deposits of government entities.

From the end of 1945 to June 30, 1950, the amount of bank credit outstanding in the Philippines increased by ₱583 million. About 43 percent of the growth represented credit extended to private individuals and business and about 57 percent was credit extended to government--the national and provincial governments, government corporations and enterprises, or individuals and businesses on the guarantee of the government. Of the amount extended to the government and its entities, more than half was extended by the Central Bank, 40 percent by the Philippine National Bank, and a small amount by other banks, largely through purchases of securities to be pledged as a part of the reserve against deposits.

Table 19. Growth of Bank Credit, January 1, 1946-June 30,1950

(Million Pesos)

	Total increase in credit	Increase in credit advanced to	
		Private interests	Gov't interests
All banks	583 1/	253	330 1/
All commercial banks	413	253	160
Foreign banks	83	77	6
Domestic banks	330	176	154
Philippine Nat'l Bank	211	78	132
Other domestic banks	119	97	22
Central Bank	170 1/	--	170 1/

Source: Partly estimated from various sources, chiefly data supplied by Central Bank of Philippines, Philippine National Bank and Rehabilitation Finance Corporation.

1/ Does not include ₱20 million extended by Central Bank to Philippine National Bank.

Banking structure

At the cessation of hostilities, the difficulties facing the banks were identical with those which were facing other businesses. They had no quarters, no equipment, and many of their records had been destroyed. Furthermore, their resumption of operations was complicated by the uncertainties with respect to the legal status of obligations incurred or settled during the occupation. In June and July 1945 seven banks opened for business. In 1946, four more banks reopened, aided by provision of ₱5 million preferred capital from the Financial Rehabiliation Fund established by the Philippine Government. By 1948, the banking system was substantially restored. It now consists of 12 commercial banks operating 20 offices in Manila, with 31 branches and 53 agencies in other cities and provincial centers, and one overseas agency.

Since their reopening, the banks have provided considerable credit for investment in reconstruction and have extended substantial credit to finance exports, imports and domestic trade. Two-thirds of the bank assets are in

domestic credits. Rates on business loans and advances range from 5 to 8 percent for the most part. Bank earnings have been good, with net profits in recent years from 20 to 25 percent of capital, surplus, and undivided profits. Banking facilities in Manila are good and credit for most purposes is available on a reasonably satisfactory basis. On the other hand, banking facilities in the provinces, outside of one or two large provincial cities, are inadequate and the need for sound credit is not met.

The Government's influence on bank credit and on the flow of funds into investment stems largely from its ownership and control of the Central Bank, the Philippine National Bank, the Rehabilitation Finance Corporation and the National Development Corporation. The operations of these financial institutions affect profoundly the position, and hence the policies, of the private commercial banks.

The Philippine National Bank with 75 offices, branches and agencies, holds about half of the resources of the commercial banking system. The bank held practically all of the public funds of the Republic (national and local governments and government corporations) and these funds constituted more than half of the total deposits in the bank on June 30, 1950. The Philippine National Bank had outstanding to the national government, to government entities, or to individuals and businesses with the guarantee of the national government, credit in the amount of ₱132 million. This is about 40 percent of the total earning assets of the Philippine National Bank and is almost equal to the total earning assets of all other domestic banks, that is, banks other than the branches of foreign banks.

Of the ₱33[illegible] million of bank credit that has gone into the Philippine economy through government channels, about ₱175 million has been advanced to or through the Rehabilitation Finance Corporation or the National Development Corporation. In addition, these two agencies secured over ₱100 million from the Treasury for their loan and investment operations, some of which represented at least part of the more than ₱80 million made available directly to the government by the banking system.

Central Bank

The Central Bank of the Philippines opened for business on January 2, 1949. The bank operates under the direction of a Monetary Board appointed by the President of the Republic and composed of the Secretary of Finance, the Governor of the Central Bank, the President of the Philippine National Bank, the Chairman of the Board of Governors of the Rehabilitation Finance Corporation, and three private citizens.

The public pronouncements and the attitude of the management of the Central Bank have been on the whole understanding and conservative with regard to monetary policy. In practice, the effect of Central Bank policy has been expansionary, however, mainly because the government failed to pursue a vigorous fiscal policy. The pleas of the Central Bank for greater caution and restraint in fiscal policy went unheeded, and the Central Bank felt impelled to fill the inexorable requirements of the government for financial assistance in meeting its investment program and budgetary deficit.

The Central Bank has prescribed reserve requirements for peso demand deposits of 18 percent and for time and savings deposits of 5 percent. The same ratio was in force prior to establishment of the Central Bank with minor changes in the nature of the two classes of deposits. The Central Bank has authorized the banks to carry reserves up to 5 percent of peso demand,

Table 20. Assets and Liabilities of all Commercial Banks, June 30, 1950

(Million Pesos)

Assets	All Banks	Foreign Banks	Domestic Banks		
			Total	Philippine National Bank	Other
Cash	33.4	8.7	24.7	12.3	12.5
Checks and other cash items	18.6	4.4	14.2	11.0	3.2
Due from the Central Bank of the Philippines	130.4	60.9	69.5	26.7	42.8
Due from other banks	99.7	34.0	65.8	28.7	37.1
Loans and discounts	288.6	61.0	227.7	174.7	52.9
Overdrafts	178.9	65.1	113.8	57.7	56.1
Bills purchased	33.9	24.6	9.3	5.7	3.6
Customers' liability, acceptances L/C	68.0	5.2	62.8	42.5	20.3
Customers' liability, trust receipts	6.2	3.1	3.0	—	3.0
Investment in bonds and shares of stock	83.2	8.9	74.3	48.6	25.7
Total credit outstanding	658.8	167.9	490.9	329.2	161.7
Banking house, furniture and fixtures, at cost less amount charged to operations	10.7	2.2	8.5	4.9	3.6
Other real and chattel property owned	3.2	—	3.2	2.7	.5
Other assets	33.2	4.2	28.9	23.5	5.5
Total	988.1	282.3	705.8	438.9	266.9
Liabilities					
Individual demand deposits	316.8	175.0	141.8	51.0	90.8
Time and savings deposits	273.9	69.1	204.8	114.3	90.5
Deposit of public funds	194.3	—	194.3	192.1	2.2
Due to banks	25.2	12.1	13.1	1.0	12.1
Officers' and certified checks	5.0	1.3	3.6	2.1	1.6
Dividends payable	.3	—	.3	—	.3
Total deposits	815.5	257.4	558.0	360.4	197.5
Bills payable	20.5	.1	20.4	20.0	.4
Accrued taxes, interest, etc.	4.3	1.0	3.3	2.4	.9
Other liabilities	68.0	19.1	48.9	25.8	23.1
Capital stock	35.3	1.5	33.8	10.0	23.8
Surplus, reserves and undivided profits	44.5	3.1	41.4	20.3	21.1
Total	988.1	282.3	705.8	438.9	266.9

Source: Central Bank of the Philippines.

Note: Figures do not always add due to rounding.

savings and time deposits in the form of obligations issued by or guaranteed by the national government, the remainder to be carried in the form of balances with the Central Bank. The reserve against deposits in foreign currencies was set at 10 percent and it may consist of balances with the Central Bank, or in the case of dollar deposits liquid dollar assets held in the United States.

The substitution of the bond reserve for cash reserve requirements up to 5 percent of deposits had as one purpose the creation of a government bond market. It induced the banks to buy bonds, because they could thus extend credit to the Government without reducing credit to business or depleting their excess reserves. The changed composition of reserves has, however, reduced the restraint on future credit creation during a period of potential inflation. The amount of bank credit that can be created for business and government has been substantially increased, with the sole limitation that if this is done part of the newly-created credit would have to go to the Government.

On June 30, 1950 the Central Bank had outstanding ₱190 million of credit in loans and investments. All but ₱20 million of this amount represents credit to the national government or to other government corporations, chiefly the Rehabilitation Finance Corporation and the National Development Corporation. The other ₱20 million represents loans to the Philippine National Bank. Of the credits to the Government, ₱44 million was a budgetary loan to the Treasury under Section 95 of the Central Bank. The law requires repayment of this loan by September 30, 1950. Discount rates were 3 percent on advances to the Philippine National Bank and 2 percent on loans to the national Government.

The Central Bank's open market operations consisted of the purchase of ₱44 million of Rehabilitation Finance Corporation bonds from the Philippine National Bank to enable that bank to repay its borrowings from the Central Bank. The Philippine National Bank had agreed to purchase these bonds at the time of issue on the understanding that, upon the establishment of the Central Bank, a more permanent arrangement would be made for financing the Rehabilitation Finance Corporation, either by additional payment on the subscription of the Government to the Central Bank or by the "implementation of the bond issue of the Corporation by the securities market functions of the Central Bank."

The remainder of the investments of the Central Bank, ₱90 million, were for "productive and income-producing projects" under Section 137 of the Central Bank Act. As of July 31, 1950 an additional ₱54 million had been authorized but not released. The use of Central Bank credit for financing the investment operations of government corporations can hardly be regarded as desirable at a time when the country is already undertaking large investments and the government has a substantial budgetary deficit.

Although the Central Bank found it necessary to provide credit for governmental purposes, it did use its powers in selective credit control. Margin requirements were substantially increased for opening letters of credit for various classes of imports. Although desirable and even helpful, this attempt at selective credit control had only a minor effect because the liquidity of business was exceptionally great, the level of money incomes was inordinately high, and the Government was operating on a growing cash deficit.

Almost from its inception the Central Bank has been faced with the problem of deciding between the difficult alternatives of continued credit expansion under inflationary conditions on the one hand and the imminence

Table 21. Assets and Liabilities of the Central Bank

(Million Pesos)

	Jan. 31, 1949	Dec. 31, 1949	June 30, 1950
ASSETS			
International reserves			
Gold	2.7	2.7	4.8
Due from U.S. depositories	712.2	448.0	436.3
U.S. Government securities	--	10.0	--
Foreign currency	*	*	.1
Sub-total	715.0	460.7	441.3
Subscription to International Monetary Fund	30.0	30.0	30.0
Domestic securities	--	92.2	125.8
Loans and advances	--	77.0	63.9
Account to secure the coinage	113.1	113.3	113.3
Other assets	19.3	20.4	32.5
Total assets	877.4	793.6	807.8
LIABILITIES			
Currency issue:			
Notes issued	621.5	555.6	531.4
Coins issued	73.0	74.4	81.3
Total	694.6	630.0	612.8
Demand deposits			
Philippine currency			
Banks	168.6	117.6	130.3
Treasurer of the Philippines	--	--	--
Other Government entities	*	*	9.0
Sub-total	168.6	117.7	139.3
U.S. dollar deposits			
Treasurer of the Philippines	.7	--	--
Total	169.4	117.7	139.3
International Monetary Fund	--	22.4	22.4
International Bank for Reconstruction & Development	--	2.4	2.4
Securities Stabilization Fund	2.0	2.0	6.8
Other liabilities	1.4	2.6	8.1
Capital	10.0	10.0	10.0
Surplus	--	--	1.6
Undivided profit	--	6.4	4.2
Total liabilities and capital	877.4	793.6	807.8

Source: Central Bank of the Philippines.

* Less than ₱50,000.

of a financial crisis of government on the other. As in all similar situations, the decision has been to avoid the more imminent risk of a financial crisis of the government and to chance the possibility of more serious economic difficulties in the future.

VI. INTERNATIONAL PAYMENTS

In the Philippines so large a part of the national income is derived from exports and from payments of the United States Government, and so large a part of the expenditure is directed toward imports and payment for services acquired from abroad that every major force working in the economy manifests itself in one form or another in the balance of payments. For this reason, too, difficulties in international payments affect very quickly the whole economy of the Philippines.

Prewar payments situation

Before the war the Philippines had no difficulty in earning enough foreign exchange to pay for the imports and services the people required. Exports customarily exceeded imports and United States Government expenditures provided another substantial source of foreign exchange receipts, so that transactions on current and capital account usually showed a surplus. The peso was on a dollar exchange standard and was fully convertible. The basis for the necessary growth in the money supply was provided by the accumulation of dollars through the moderate balance of payments surplus.

Table 22. International Receipts and Payments, Average 1938-40

(Million Dollars)

Receipts	
Exports	117.4
Gold production	34.8
U.S. Government expenditures	39.0
Other	8.5
	199.7
Expenditures	
Imports (c.i.f.)	149.7
Other	33.0
	182.7
Surplus	17.0

Source: International Monetary Fund, Balance of Payments Yearbook, 1948 and Preliminary 1949, p. 327.

International transactions were of major importance to the economy of the country. In 1938, exports and gold production were about 26 percent and United States Government expenditures, by far the largest source of non-trade receipts, about 7 percent of the gross national product. Imports (c.i.f.) were about 26 percent of total value of goods and services used in the country. Other payments abroad, in the form of private remittances, dividends, interest, and amortization of foreign capital, were equal to about 5 percent of the gross national product. These payments were only a little less than United States Government expenditures in the Philippines.

There was free trade between the United States and the Philippines except for quota restrictions by the United States on a few products. This helped the Philippines to become a preferred source of primary products for the American market, and it assured a favored market for American manufactured goods. Indicative of this relationship is the fact that before the war the United States absorbed about 80 percent of total Philippine exports, mainly in the form of sugar, copra, and raw materials, and supplied about 60 percent of total Philippine imports, mainly as manufactured products. Next to the United States, Japan was the most important trading partner, taking about 6 percent of exports and supplying about 10 percent of imports. Trade between other countries and the Philippines was of little importance.

Table 23. Principal Exports and Imports of the Philippines, 1938-40

Exports	Percent of Total	Imports	Percent of Total
Sugar	38	Cotton & manufactures	15
Coconut products	22	Steel & manufactures	10
Abaca	10	Petroleum products	8
Tobacco and manufactures	5	Machinery & parts, except electrical	6
Base metals	5	Tobacco products	6
Other	20	Other	55
Total	100		100

Source: United States Department of Commerce.

International payments, 1945-49

The changing economic situation in the years from 1945 to 1949 can be seen in the trade and payments of this period. Both 1945 and 1946 were dominated by the special conditions of the early postwar years. In 1945, the Philippines added $256 million to its dollar reserves, representing primarily the large war and postwar military expenditures of the United States while imports amounted to only $29 million (all in the second half of the year). In 1946, the Philippines drew down $207 million from its dollar reserves, representing the sharp drop in net military expenditures and the resumption of considerable imports before exports had resumed.

INTERNATIONAL PAYMENTS

Table 24. International Receipts and Payments, 1945-49

(Million Dollars)

Receipts	1945	1946	1947	1948	1949
Exports (f.o.b.)	1	64	265	318	260
Net U.S. Gov't Disbursements*	284	119	335	339	324
Other	--	44	129	62	37
Total	285	227	729	719	621
Payments					
Imports (c.i.f.)	29	335*	588	674	673
Other	--	73	108	86	92
Total	29	408	696	760	765
Surplus or Deficit	256	-181	33	-41	-144
Errors and Omissions	--	-26	-16	4	-16
Net Change in International Reserves	256	-207	17	-37	-160
Net Reserve at end of year	647	440	457	420	260**

Source: Based on the First Annual Report of the Central Bank of the Philippines, 1949, data submitted to the Mission by the Philippine Government and estimates of the U.S. Treasury Representative in Manila with respect to U.S. disbursements.

* Excludes surplus property, UNRRA supplies and aid, certain grants in kind, and an allowance for remittances of American military personnel to dependents in the United States.

** Gross reserves of $284 million minus liabilities of $24 million.

The balance of payments in the years from 1947 to 1949 has four characteristics that distinguish it from the prewar years: first, the much smaller volume of exports; second, the great importance of the United States Government disbursements; third, the much larger volume of imports; fourth, the much larger amount of non-trade payments. Furthermore, the net position changed from a moderate surplus before the war to a large deficit in 1948 and 1949.

The export receipts of the Philippines were $265 million in 1947, $318 million in 1948, and $260 million in 1949. The changes in export receipts reflect primarily the rise in export prices in 1947 and 1948 and the fall in export prices in 1949. In 1949, the volume of exports was about 80 percent of prewar. The commodity composition of exports was also greatly changed. Coconut products had displaced sugar as the principal export. Newly-mined gold, which in the year of highest production (1940) amounted to one-third as much as the value of exports, had become of negligible importance; and very little of the newly-mined gold was delivered to the monetary authorities, three-fourths of the output being sold at a large premium for domestic hoarding.

Table 25. Volume and Value of Exports, 1938 and 1947-49

(Thousand metric tons; million pesos)

	1938		1947		1948		1949	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value
Coconut products	542	55	1,047	387	694	407	648	253
Sugar, centrifugal	818	92	19	4	217	42	415	90
Abaca	141	20	86	63	75	60	63	58
Pineapples, canned	9	2	—	—	15	8	40	14
Other		62		75		118		93
Total		231		529		635		508

Source: Central Bank of the Philippines.

United States Government disbursements were the greatest single source of foreign exchange from 1945 to 1949, exceeding export receipts in these years. They amounted net after adjustment to $275 million in 1947, $339 million in 1948, and $324 million in 1949. These disbursements made it possible to maintain imports and remittances at exceptionally high levels. They were an important factor in generating the high level of peso income and in financing the enormous postwar investment. They have already begun to decline in amount and the prospect of their further decline is an important element of weakness in the international payments position.

Table 26. United States Government Disbursements, 1945-49

(Million Dollars)

Agency	1945-46	1947	1948	1949	Total
Philippine War Damage Commission	—	13.2	111.8	176.9	301.9
Veterans Administration	—	18.8	35.3	58.6	112.7
Military Agencies	—	196.7	174.5	56.7	427.9
Reconstruction Finance Corporation	—	60.0	—	—	60.0
Other	—	46.3	17.2	31.3	94.8
Totals	402.8	335.0	338.8	323.5	1400.1

Source: Derived from estimates of the U.S. Treasury Representative in Manila. Does not include $78.4 million in 1948 and $22.5 million in 1949 allowance for remittances of American military personnel to dependents in the United States; $100 million of surplus property under Title II of the Philippine Rehabilitation Act, and $36.5 million grants in kind. Total of these and the above is $1,637.5 million.

Imports were exceptionally high in the years 1947 to 1949. In dollar value, they were about 4.25 times and in physical volume about 2.5 times the prewar average. This enormous inflow of imports reflected to a greater extent the huge rise in peso income in the postwar years. There was a strong tendency for the peso value of imports to revert to the prewar relationship to gross national product. This is indicated by the decline in the ratio of imports to gross national product in 1949, despite the fact that imports of this year include a good deal of buying in anticipation of import and exchange controls.

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The non-trade transactions of the Philippines, other than United States Government disbursements, have become strikingly larger in the postwar period. Apparently, there was a large inflow of private funds, especially in 1947 ($129 million) and to a lesser extent in 1948. Much of this inflow was for the purpose of financing the reconstruction of foreign-owned enterprises, primarily American. At the same time, there was a large outflow of private remittances. These remittances represented the repayment of funds borrowed abroad by foreign enterprises, the transfer of profits and depreciation reserves by foreign enterprises, and the outflow of domestic funds. The remittances reached the level of a capital flight in the three months preceding the imposition of exchange controls.

It is the behavior of these major elements which explains the serious deterioration in the Philippine balance of payments position. The net reserves, which amounted to $647 million at the end of 1945, fell to $260 million at the end of 1949. At the rate at which the balance of payments deficit was being incurred during the last quarter of 1949, these reserves would have been entirely exhausted within another year.

Prospective payments position

During the first six months of 1950, the Philippine Government succeeded in halting the drain on reserves by the drastic application of the import and exchange controls put into effect late in 1949. Imports were cut by 38 percent from the 1949 annual rate, while other payments, allowing for errors and omissions, were reduced by 24 percent. Export receipts rose slightly. But there was a precipitous, although expected, decline of about 40 percent in United States Government disbursements, hitherto the largest source of exchange receipts.

Table 27. International Receipts and Payments, January-June 1950

(Million Dollars)

Receipts	
Exports[1]/	141.9
Newly-mined gold[2]/	1.0
U.S. Government disbursements	101.2
Other	29.2
Total	273.3
Expenditures	
Imports (c.i.f.)	205.7
Other	34.8
Total	240.5
Errors and Omissions	-28.4
Net surplus	4.4
Net Reserve on June 30, 1950	264.4

Source: Central Bank of the Philippines.
1/ Trade returns.
2/ Deliveries to the Central Bank.

It is not likely that the Philippines can balance its international payments in the near future except by strict exchange and import controls or by other extraordinary measures. The production of export goods is profitable, and the prospects of enlarged production are improved, but not to an extent that will increase exchange receipts by a large amount quickly. The export of sugar may be expected to increase to the full amount of the United States quota within two or three years; the export of copra will probably continue at a high level, but the export of abaca can recover only slowly from the disorganization of production and serious plant disease. While the volume of exports will probably recover to the prewar level, and in time exceed it, the payments difficulties cannot be met by the moderate expansion of exports that can take place in the next few years.

The real difficulties in the Philippine balance of payments lie elsewhere. In large part they arise from the inordinate postwar dependence on United States Government disbursements, a source of exchange that is now falling off rapidly. On the basis of present prospects, which may be affected by the situation in the Far East, United States Government disbursements will in 1950 drop 25 percent below the 1949 level; and in 1951, they may drop by more than 50 percent below the 1949 level. This is an anticipated fall of $180 million annually. No likely expansion of exports, nor rise in export prices, can offset the effect on foreign exchange receipts of this drop.

Table 28. Estimated Foreign Exchange Receipts, 1949-1951

(Million Dollars)

	1949 Actual	1950 Estimated	1951 Estimated
Receipts			
Exports	260	260	292
Gold	none	2	4
U.S. Disbursements	324	245	145
Other	37	55	53
Total	621	562	494

Source: Central Bank of Philippines, for all items except U.S. Government disbursements.

The other source of difficulty in the Philippine balance of payments is the volume of imports. It was clearly necessary for the Philippines to have large imports in the early postwar years. That was the only way in which outside resources could make good the deficiency in home production; it was the only way in which reconstruction of the Philippine economy could begin promptly. The large imports of 1947 and even 1948 could be properly regarded as part of the recovery process. The disturbing aspect of the postwar volume of imports, however, is their continuance during 1949 and their potential magnitude in 1950 and later years. Until fundamental measures are taken to correct the international payments difficulties, expenditures can be kept in balance with receipts of foreign exchange only by reducing imports and by exercising close control over other payments abroad. In 1950, this requires a reduction in payments abroad of about 27 percent from the 1949 level. In 1951, it may require an even larger reduction, probably on the order of 35 percent from the 1949 level.

INTERNATIONAL PAYMENTS

The payments pattern of the Philippines in the post-liberation years is dominated by the changes brought on by the war. This pattern reflects not only the painful difficulties growing out of greater needs and reduced export capacity, but also the unusual opportunities for rehabilitation and reconstruction growing out of the large receipts from United States Government disbursements. The existence of a balance of payments emergency five years after the war is evidence not only of the depth of the war-time disruption, but also of a failure to put into effect the financial policies that could have mitigated the payments difficulties of the Philippines. The economic development of the country can alleviate the present payments difficulties; these difficulties cannot be solved, however, if the mistaken financial policies of the past are left unchanged and continue to generate the unbalance which pervades a large part of the Philippine economy.

VII. IMPORT, EXCHANGE AND PRICE CONTROLS

The pressing difficulties in international payments and the need to act promptly to protect the reserve position of the country led the Government to impose import and exchange restrictions in 1949. In order to avoid an unwarranted rise in the prices of import goods as a consequence of these restrictions, a policy of price control was adopted in June 1950.

Import controls

The Joint Philippine-American Finance Commission of 1947 felt that measures should be taken to limit imports in order to conserve exchange resources for development. The Commission recommended a pilot program of import controls on non-essentials and goods for which locally-produced substitutes were available. Congressional action on import controls was not taken, however, until May and June 1948 and the import controls first put into effect in January 1949 were relatively moderate and affected mainly luxury items. In August 1949, a few more items were added to the controlled list. On December 1, 1949, as the balance of payments situation became critical, controls were extended to a large number of new items and percentage cuts were increased in many groups.

A large-scale speculative shift from controlled to non-controlled import items, temporarily kept in check by exchange control, convinced the Government of the need for a comprehensive system of import controls which would assure the supply of essential imports for consumption and for development. Under the new import control law of May 1950, all imports are subject to license by the Import Control Board. Goods subject to quotas are classified as (a) prime imports, (b) essential imports, (c) non-essential imports, and (d) luxury imports. Percentage cuts allowed by the Act from the average value of imports for the years 1946 to 1948 are: not more than 40 percent in class (a), 40 to 60 percent in class (b), 60 to 80 percent in class (c), and 80 to 90 percent in class (d).

Non-enumerated goods--so-called "non-quota" goods--must have an import license and may not be imported in excess of their import value for the year 1948, except in the case of agricultural machinery and equipment, and other machinery, materials and equipment for dollar-producing and dollar-saving industries. In practice, imports of non-quota goods have been limited to 48 to 84 percent of their 1948 value. In addition there are certain "ex-quota" items, specified in the Act as not being under quota allocations. These include raw materials for the manufacture of "prime necessities" or "dollar-saving and dollar-producing commodities," if such raw materials are not sufficiently available in the Philippines; supplies for government hospitals, schools, etc.; articles imported in exchange for or bartered with Philippine products; and goods imported pursuant to the provisions of any Price Control Law or regulations.

The Central Bank is required to notify the Import Control Board of the exchange available for imports and licenses may not be issued in excess of the amount indicated. Thirty percent of the import quotas is reserved for new importers and this proportion is to rise to 50 percent in 1952-53. A new importer must be a Philippine citizen or a corporation at least 60 percent of whose stock is owned by Philippine citizens, but citizens of the United States are accorded the same privilege. Quota allocations are not transferable.

IMPORT, EXCHANGE AND PRICE CONTROLS

Since the imposing of controls, the amount and composition of imports have changed considerably. The reduction in total imports was 41 percent. The reduction in imports of consumption goods was exceptionally large; but even imports of capital goods and raw materials showed a slight net decline.

Table 29. Effects of Controls on Imports, January-June 1950

(Million Pesos)

	1949 (January to June)		1950 (January to June)		Relative Increase or Decrease
	Value	Percent	Value	Percent	Percent
Total Imports[1]/	628.1	100.0	374.1	100.0	- 40.63
Commodities subject to Executive Order	313.2	49.86	106.7	28.52	65.93
Capital goods	.6	.10	2.0	.53	+213.38
Raw materials	26.1	4.16	13.1	3.49	- 49.94
Consumption goods	286.5	45.60	91.7	24.50	- 68.00
Commodities subject to Central Bank notification	315.0	50.14	267.5	71.48	- 15.06
Capital goods	59.1	9.42	56.1	14.99	- .52
Raw materials	217.1	18.65	126.4	33.77	+ 7.89
Consumption goods	139.0	22.07	85.0	22.72	- 38.68

Source: Central Bank of the Philippines.
1/ Excludes gold and gold bullion.

Import controls have been accepted by most of the business community as indispensable until the international payments position of the country can be improved. The objections that are expressed are primarily directed to the lack of clarity in policy and in the interpretation of the law. The administration is needlessly complex, costly and dilatory. To the difficulties caused by inefficiency are added those attributable to favoritism and even corruption, the inevitable accompaniments of a detailed system of control in countries with inadequate, inexperienced, and underpaid staff.

Import controls have probably retarded foreign investment because of uncertainties as to future policies and the fear of further restrictions against foreigners. Even with the proviso recognizing the treaty rights of United States citizens in the allocation of quotas to new importers, the law is unjust to established importing firms in progressively reducing their share of import trade to 50 percent of a total which is already greatly reduced. Many of the "new importers" are fronts exploiting their privileged access to licenses without actually engaging in trade.

Exchange control

Exchange control was imposed on December 9, 1949. In accordance with the provisions of the Philippine Trade Act of 1946, the agreement of the President of the United States was asked and obtained. This change in the traditional exchange policy of the Philippines was necessary to halt a drain on the reserves which had reached alarming proportions. During the period from October 1, 1949 to December 8, 1949, the net decline in reserves amounted to $60.9 million. In the first eight days of December the reserves declined by $14.5 million. A mission from the International Monetary Fund which arrived in Manila on December 2 and reviewed the whole situation carefully with officials of the Central Bank reported that "exchange controls were unavoidable if a serious flight of capital was to be prevented."

The deficit of $161 million in 1949 was more than four times the 1948 deficit of $38 million. The decline in international reserves was greatest in the first and fourth quarters of 1949. During the first quarter this was accounted for primarily by the heavy trade deficit. But beginning in October, following the widespread currency devaluations, a capital outflow was induced by fear of devaluation of the peso. In the emergency situation which existed at the end of 1949, it seems clear that the Philippine Government had no choice except to impose exchange controls and to tighten import controls.

Table 30. Balance of Payments, 1949, by Quarters

(Million Pesos)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Imports, c.i.f.	408	347	284	308	1,347
Exports	135	141	129	125	530 1/
Trade deficit	273	206	155	183	817
U.S. Government expenditures	168	174	159	146	627
Excess of trade deficit	(105)	(32)	4	(37)	(170)
Excess of other payments	(9)	(14)	(56)	(73)	(152)
Decline in the total International Reserves	114	46	52	110	322

Source: Central Bank of the Philippines.

1/ Includes freight earnings of Philippine vessels.

Compared with the exchange control systems in effect in other parts of the world, the Philippine control is relatively simple. All transactions in gold and foreign exchange are subject to license by the Central Bank. The actual licensing is divided between the Exchange Control Department of the Central Bank and certain banks and stockbrokers who act as its authorized agents. Philippine gold producers are required to sell 25 percent of their production to the Central Bank at ₱70 a fine ounce. The remainder may be sold in the domestic market at a premium price. No licenses are needed

for domestic purchases and sales of gold. Application for licenses to import or export gold must be filed directly with the Central Bank. Exchange acquired abroad by resident non-Philippine citizens from non-residents need not be surrendered to the exchange authorities. Residents have not been required to surrender assets held abroad prior to control. Virtually all foreign exchange transactions continue to be made in U.S. dollars, the principal exception being exports to Japan under the Philippine-SCAP Trade Agreement.

Shortly after its inception, the exchange control was confronted with the urgent necessity of curbing a speculative shift of imports from commodities subject to control to commodities not subject to such control. To meet this problem, the exchange control in early January withdrew the authorization previously given to the banks to open letters of credit freely for uncontrolled imports. Pending the establishment of an inclusive import control, the banks were authorized to issue letters of credit up to a monthly limit of 6 percent of the amount of all letters of credit used by a customer and bills received for collection from a customer in 1949 in connection with the import of uncontrolled commodities.

For nearly two months after the inauguration of exchange control the administration was extremely confused and seriously disturbed the business life of the country. The fears to which it gave rise led to complete disappearance of silver coins from circulation and a large increase in imports of non-controlled goods. The basic cause of the confusion was the fact that the control was imposed suddenly, without planning either as to policy or administration, and that the Central Bank did not have a sufficient number of trained personnel to cope with the administrative problems posed by the control.

The business community now seems generally agreed that exchange control is necessary and that it is being more efficiently administered. Current complaints center largely around a policy, suddenly announced in May, of restricting profit and dividend remittances to 10 percent of net profits after taxes (20 percent in the case of foreign banks). Quite recently the Monetary Board has adopted a more liberal policy (10 percent of net profits or capital stock plus 30 percent of fixed assets or capital stock--40 percent of net profits for banks). Moreover, the Central Bank has indicated that it will consider on an ad hoc basis cases which cannot be met equitably by application of the general formula. Another recently adopted policy of the exchange control permits foreign employees to transfer 50 percent of their base salary in dollars.

Apart from problems of policy, the exchange control has a difficult problem of enforcement in a country in which dollar funds are widely received. The largest evasion has resulted from a black market feeding on United States Government dollar checks which travel from the Philippines to Hong Kong, to the United States. A recent modification of the United States payments procedure for Veterans Administration checks should bring most of this traffic to a halt. There also probably has been some undervaluation of exports and over-valuation of imports.

Price control

There have been several attempts at price control through the establishment of price ceilings in the Philippines. Such a system was first instituted in 1939 and continued during the Japanese occupation. Following

the liberation, the Commonwealth Government reinstituted a system of price controls affecting all principal commodities. In the main all of these attempts at price control were ineffective.

On June 13, 1950 a new price control act was adopted to mitigate the effects on domestic prices of the import and exchange controls. The Act proclaims it to be the Government's policy to prevent scarcity and profiteering in essential imported and domestic goods. The Act authorized the President, upon recommendation of a Price Administration Board, to establish maximum prices for any commodity except rice and corn, for which prices are fixed by the President on recommendation of the Rice Emergency Board. The General Manager of the Philippine Relief and Trade Rehabilitation Administration (PRATRA) is designated as the Price Administrator and Vice-Chairman of the Board. The Board has representatives of consumers, producers and distributors and it is directed, insofar as practicable, to consult with national and regional industrial committees. Price control is to continue in force until April 30, 1951.

The administration of price control is by the main office of PRATRA in Manila. In the provinces committees have been established in towns and cities to assist the Manila office and to work with the local police in the enforcement of the control. To implement the Act a series of executive orders has been issued establishing maximum prices for approximately 150 commodities. In general, current costs and price levels are the basis for the ceiling prices. The issuance of executive orders fixing maximum prices is ordinarily preceded by hearings at which representatives of the affected industries or trade are given an opportunity to state their views.

The Act authorizes the President, whenever any goods are in short supply or whenever there is uncontrolled inflation, to order the owner of essential goods to sell them at ceiling prices, giving priority to PRATRA. The Act further confers upon the President the power to authorize PRATRA or any other Government agency to import commodities directly when they are in short supply or whenever there is reasonable ground to believe that certain commodities will disappear in the open market or whenever there is uncontrolled inflation. The experience of PRATRA in connection with the import of flour shows how easily such powers can be used in an arbitrary manner and contrary to the interests of the consuming public.

The new price control has been in operation for too short a period to allow firm judgment as to its effectiveness. On the basis of previous experience with price controls in the Philippines, it seems unlikely that a comprehensive control of the nature contemplated can be effectively enforced. Unless supplies are not too short, an effective price control system usually depends upon the efficient functioning of a rationing system to prevent maldistribution. It appears to be the general opinion that an efficient and honest rationing system cannot be enforced in the Philippines and that rationing would serve as another avenue for black marketing.

Effectiveness of controls

The import, exchange and price controls have only recently been put into effect. They have their origin in the inflationary forces that tend to induce excessive imports, capital flight and rising prices. However unpopular the controls may be, it will not be possible to dispense with them. Once inflationary pressures have been reduced, less onerous controls could be depended upon to prevent widespread disturbances in prices and international payments.

IMPORT, EXCHANGE AND PRICE CONTROLS

The prospective balance of payments position of the Philippines indicates that substantial relaxation of restrictions cannot be expected in the near future. More important, the conditions which led to the capital flight still exist to such a degree that any lifting of the controls must be undertaken cautiously. The continuance of exchange and import restrictions of approximately the present degree of severity is not a satisfactory solution to the payments problem, but the premature removal of controls might set off a speculative orgy which could sweep away the foundation for any long-run attack on the problem.

The difficulties that have been experienced in applying controls, however, indicate that the administrative machinery of the Philippines is not capable at this time of undertaking complex controls without burdening the conduct of business and opening the way to favoritism. The immediate objective should be to simplify the present administration of controls; and the ultimate objective should be to eliminate entirely the need for them.

VIII. PROBLEMS AND REMEDIES

With full allowance for the deficiencies in statistics, it seems clear that five years after the liberation, the physical volume of production in the Philippines has not yet reached the prewar level. Even this unsatisfactory recovery has been accompanied by serious distortions in the economy--in public finance, in international payments, and in the distribution of income. Despite the large outlay on reconstruction and the enormous volume of imports, almost no progress has been made in dealing with the basic economic difficulties of the Philippines--inadequate and inefficient production, the low levels of income, and the lack of economic opportunities in agriculture and industry.

To some extent the immediate difficulties in the Philippines grow out of the destruction and disorganization of the war; but there can be no doubt that one important factor has been the failure to put into effect the fiscal and credit policies that could have avoided the existing inflationary conditions.

Financial problems

The Treasury is confronted with an imminent cash crisis, as a consequence of which even the ordinary expenditures of the Government have not been fully met in recent months. When the war ended, the Government had large balances in the United States. These funds have now been drawn down, other reserves have been used up, a budgetary loan has been secured from the United States, and large sums have been borrowed from the Central Bank and the Philippine National Bank. Now that these resources are gone, the Government is in a critical cash position, and the ability of the Government to provide essential public services and even to maintain peace and order may be impaired.

The present financial difficulties arise directly from a failure on the part of the Government to impose and collect taxes on a scale that would meet its current expenditures, although this is well within the capacity of the economy to sustain. During the years when the gross national product, including transfer income from abroad, was rising very rapidly and profits and other large incomes were abnormally high, the Government made no determined effort to place its finances on a sound basis. Instead, the policy was followed of using the resources that had been accumulated and running heavily into debt. The cash crisis with which the Government is now confronted is the consequence of a protracted period of neglect in Government finances.

The inflationary conditions to which this policy gave rise affected the distribution of income, the international payments position, and the direction of investment and production. The fiscal and credit policy retarded the fall in prices that was so necessary to bring the Philippine economy into a more appropriate relation with the price levels that prevailed in the United States and in world markets generally. As a consequence, the index of the cost of living in the Philippines is about 370 on a 1937 base, while in the United States it is about 170. Wage rates have risen very considerably in the Philippines, but not enough to prevent deterioration in real wages, except for industrial workers in Manila. This behavior of prices is one element in the inequality in incomes which is now even more marked than in the prewar years.

PROBLEMS AND REMEDIES

These same inflationary conditons have contributed to the serious balance of payments problem in the Philippines. The gross national product, including transfer income from abroad, has risen in terms of money to about four and a half times the prewar amount, while the real output of goods and services, including services performed for the United States, has increased very little. There is a very close relation in the Philippines between the level of national income in pesos and the expenditure on imports. With the very large expansion of national income in terms of money, there has been a corresponding expansion in the demand for imports. Prior to the import controls, this involved the import of two and a half times the prewar volume and the expenditure of about four times the prewar amount on imports. Even with the high prices for Philippine exports and the large receipts from the United States Government disbursements, the Philippine economy cannot pay for such a volume of imports.

The extraordinary demand for imports in the Philippines has made trade exceptionally profitable. It is partly for this reason that so much of the postwar investment in the Philippines has gone into commerce and trade. In a positive way, the effect of the inflationary conditions has been to prevent the development of domestic industry in those import fields in which greater progress in production might have been expected. At the relatively low level of dollar prices for import goods and the relatively high level of peso costs, some goods which ought to be capable of economical production in the Philippines could not compete with imports. When the most favorable opportunity for diversifying the Philippine economy existed, during the period of greatest home demand and limited foreign supply, new investment in industry avoided the fields in which import competition would have to be met.

These problems stemming from inflation cannot be solved by measures concerned with the symptoms of economic unbalance. Import, exchange, and price controls are devices for dealing with emergencies. They are clearly not remedies for basic disorders in a country's economy. These urgent financial problems cannot be ignored, for the country faces a steady deterioration in its economic situation which may sooner or later lead to a breakdown in the economy, with all the social and political consequences of such a disaster. The financial problems can be met by a bold and determined policy to increase taxes to the extent necessary to balance the budget.

There is an urgent need to place government finances on a sound basis, for the Treasury is faced with a critical problem of meeting its day to day obligations. Under such conditions, the Government will be tempted to finance its needs by borrowing from the Central Bank or the Philippine National Bank. If this should occur, the threat of a large and rapid rise in prices will emerge. This is a serious problem in a country in which wages are exceptionally low and in which income and wealth is very unequally distributed. Any further impairment of the real income of the poor may lead to grave unrest. The growing inequality in the distribution of the national income is economically unfair, socially unjust, and politically unwise.

Basic economic problems

Immediate attention must be given to changing the policies that have brought on the critical financial problems. This will improve the present economic situation somewhat. It will not provide a solution to the fundamental ills from which the Philippine economy is suffering--too little

production, inefficient methods of production, poverty levels of income, an unfair distribution of income, and the absence of opportunity for economic advancement and economic security.

These are long-standing problems of the Philippines that have emerged in more acute form in the postwar period. The inequities they involve have been accentuated by the postwar financial instability. There is now a greater realization of their importance to a sound economic and social structure. A wholehearted effort must be made to solve these problems if the people are to have confidence that leaders in Government, agriculture and business are concerned with their well-being.

The most difficult of the basic economic problems is the inadequacy of production. In agriculture, total production is only at the same level as it was thirteen years ago, despite the increase in population. The country is excessively dependent on large imports of food to maintain even the present low level of consumption. The problem of inefficient agricultural production is partly a matter of putting to use better methods of cultivation, partly a matter of giving incentive to those who till the soil. A number of technical missions have studied carefully the means of increasing agricultural production by applying known methods of raising the yield of the leading crops. The difficulty is not so much in knowing what to do as in getting it done.

For the great mass of people that must gain their livelihood from agricultural work, no solution to their economic problems will be regarded as acceptable that condemns them to remain indefinitely underpaid agricultural laborers and debt-burdened farm tenants. In a country with large reserves of good land that can be used for cultivation, the able and ambitious tenant and agricultural laborer should have open to him the possibility of becoming an owner of enough land to provide his family with a decent living. The dignity and security which should be part of the reward for working on the land are lost when the social and economic system makes agricultural workers and tenants little more than peons. The best incentive for increased production in agriculture is to give a larger share of the crop to those who till the soil, to open to them the hope of owning their own land.

Too large a part of the Philippine economy has been based on the production of a few basic crops from which the great mass of the people derive only a meager livelihood. The development of industrial production utilizing efficient methods of production in fields suited to the Philippine economy would provide the people of the Philippines with work opportunities in which better incomes could be earned. It would relieve the pressure on agricultural and industrial wages of too many workers seeking employment on an inadequate supply of land, inefficiently cultivated. It would help diversify the Philippine economy and contribute toward the solution of the international payments problem in a constructive way, by decreasing the excessive dependence on imports and by producing new goods for export.

The general level of incomes in the Philippines can be raised only by increased production and more efficient production. A considerable increase in production can be achieved over an extended period of time as the Philippine economy is developed. There is no reason, however, why the lowest-paid workers should be condemned to wait indefinitely for even a modest improvement in their economic position. Despite the fact that production is low and inefficient, the wages of the poorest paid workers can be increased. The economy can afford to pay more than is now paid without impairing the position of agriculture and industry. This is shown by the very high level of profits in business and the large incomes from the

ownership of land. The fact is that the more enlightened employers already pay far better wages than the sub-standard level that prevails in some agricultural and industrial employment.

The best way of raising the standard of living of the people of the Philippines is by providing them with more and better work opportunities. This will open to them the hope of sharing in the benefits of economic progress. In agriculture, this means the possibility of acquiring land by tenant farmers and agricultural laborers and raising farm incomes through more efficient production. In industry, it means the possibility of using modern techniques under efficient and enlightened management concerned to give employees higher wages and better working conditions. The opening of new work opportunities in all parts of the country will strengthen the economic position of all those who are now compelled to accept what employment is at hand, at wages that deny them the essential decencies which make a happy and contented people.

Constructive solutions

The outlook for the Philippine economy as it appears in 1950 cannot justify an attitude of complacency. The immediate financial and economic problems are acute; the long run possibilities appear to be neglected. Under such conditions no policy is so dangerous as to sit back and do nothing. The present Hukbalahap movement is clearly an organized effort to disrupt the economy of the country and to destroy confidence in the Government. The suppression of such disorder is essential to safeguard the country from planned aggression and to permit the economy to progress in a peaceful and orderly way. But it would be a mistake to under-estimate the extent to which failure to deal boldly with the problems of economic poverty and the lack of economic opportunity has increased the feeling of desperation among the people and provided a breeding ground for agitation and disorder.

The best way to strengthen the confidence of the Philippine people in democratic government is to provide a strong and progressive economy in which people can work and live with dignity and security. This will not be achieved by continuing the agriculture and industry of the country along the present narrow and inefficient lines. The people of the Philippines need an opportunity to expand production in agriculture and industry, and to share fairly in the increased output that this will bring.

The Philippine economy provides innumerable opportunities for development. The task of political and economic statesmanship is to explore these opportunities and to utilize them. The hopes and energies of the people can in this way be devoted to constructive achievement. Above all, economic development must not become a means for increasing the existing inequalities in income. The development should bring with it higher real incomes and new opportunities for a better life for those who work on farms, in industry, and in commerce. The policies that are necessary to give this direction to the Philippine economy are discussed in the second part of this Report.

Part Two: Development Problems and Policies

IX. AGRICULTURE, FISHERIES, AND FORESTRY

In December 1946 the report of the Philippine-United States Agriculture Mission made very complete recommendations regarding the rehabilitation and improvement of Philippine agriculture. The agricultural members of the Economic Survey Mission are in practically full agreement with the findings of the Agricultural Mission of 1946. Unfortunately, after four years, no important part of the report has been adopted. The basic problems of Philippine agriculture have not been given the urgent consideration they require.

Before the war, approximately 73 percent of the people in the Philippines who were gainfully employed reported agriculture as their principal occupation. This occupational distribution has been considerably modified by the war, with a large increase in employment in trade and commerce and in the service industries. Nevertheless, agriculture is certain to remain for a long time the dominant source of income and employment. For this reason, improved production in agriculture and the solution of long-standing land problems are essential to the improvement of the economy.

Table 31. Gainful Workers by Major Occupation Groups, 1939

Occupation	Number	Percentage Distribution
Agriculture	5,008,647	72.9
Fishing	180,569	2.5
Forestry and Hunting	26,820	.4
Sub-total	5,216,036	75.9
Mining and Quarrying	47,019	.7
Manufacturing & Mech. Industries	503,996	7.3
Building and Construction	94,501	1.4
Sub-total	645,516	9.4
Electricity, Light, Gas	2,838	.1
Personal Service	332,321	4.8
Professional Service	103,415	1.5
Public Service	49,620	.7
Transportation & Comm.	203,596	3.0
Clerical	48,899	.7
Trade	270,766	3.9
Sub-total	1,011,455	14.7
Grand Total - all workers	6,873,007	100.0

Source: Census of 1939, Summary and General Report, Volume II; adjusted by the staff of the International Bank for Reconstruction and Development.

Inadequacy of production

Agricultural production has been restored considerably since 1946 but in 1950 it is still below the prewar average. The production of the principal food crops -- rice, corn, root crops and fruits -- is now about equal to

prewar levels but with an expansion of population of about 25 percent, food production per capita is still considerably below prewar and the nation is dependent upon imports for a sizable proportion of its food supply.

The output of the principal export crops is still well below prewar. Coconuts are the only export crop for which production has exceeded prewar levels. Sugar production also has made a sharp recovery but in 1949 was still only about 70 percent of prewar and exports to the United States were still far below the quota allowed in the Philippine Trade Act. Abaca production was retarded by excessive stripping and the spread of mosaic disease, and in 1949 was less than one-half of prewar. The tobacco industry has had difficulty in establishing its prewar markets and expansion of production has been slow.

The recovery in agricultural production has been partly due to good work by the Department of Agriculture and Natural Resources and the War Damage Commission. But mostly the recovery is due to the momentum of a predominantly agricultural economy being released from the preoccupations of war. Nevertheless, one cannot say that what has been accomplished since 1946 lends any great hope that Philippine agriculture will go very much beyond its status in 1946 unless some new impetus comes in to encourage the use of improved methods of production and make their use worthwhile to the farmers who adopt them. In fact, there is urgency in dealing with some crop problems if the situation is not to deteriorate.

The abaca industry in the Province of Davao, the major abaca producing area in the Philippines, is seriously threatened by a mosaic disease. Immediate action must be taken to prevent the further planting of diseased seed, the older plantings showing disease cleaned up, and a major source of disease-free seed provided. This problem constitutes an emergency and prompt action is necessary if a serious setback to this important export crop is to be avoided.

Although sugar production is being restored, the industry is far from being in a sound position. The same amount of sugar should be produced on much less area, thus freeing good cultivated land for the growing of food grains and other food crops. This is a very reasonable expectation, for sugar production per unit of area is less than half of what it is in other cane sugar producing countries of the world. The increase in unit production would go far toward putting the industry on a competitive basis and very significant improvement is necessary if only to meet the provisions of the Philippine Trade Act by 1954. Of greater importance perhaps is that higher sugar yields and more food production in the main sugar districts, such as Occidental Negros, would benefit tenants and laborers whose economic condition is pitiable to say the least.

Copra production was not seriously affected by the war but the industry needs to give serious consideration to the Kadang-Kadang disease, which is a serious menace to the coconut industry in the important Bicol region, and to the improvement of quality of the copra produced.

Postwar rehabilitation of tobacco has been handicapped by (1) the shift in the United States in the demand from cigar to cigarette tobacco, (2) the further mechanization of the cigar industry in the U. S., and (3) the low purchasing power of Spain, which has been the principal market for Philippine leaf tobacco. The best possibility of reviving tobacco growing is the production of varieties that are in demand for export or for use in domestic cigarettes.

The deficit in the production of food grains causes a serious drain on foreign exchange and is inexcusable in view of the country's resources. There must be put to use as rapidly as possible the information already available on means to bring about a prompt expansion of production. If the Government will concentrate on providing the farmers with the help and guidance they require, a long step forward will have been taken toward increasing the production of rice and corn sufficient for domestic consumption.

Government and agriculture

The lack of interest in the plight of agriculture is indicated by the provision made for it in the budget. In 1949, the gross national product, including disbursements of the United States, was over ₱5.0 billion. Of the total amount, agriculture contributed 56 percent, fisheries 6 percent and forestry 3 percent. The most obvious thing about the whole Philippine economy, therefore, is the predominant position held by plant and animal production. Added to this is the striking fact that 75 percent of the people are dependent on such production for their livelihood.

The national budget makes little provision for this basic occupation of the Philippine people. For the fiscal year 1951, there was appropriated to the Department of Agriculture and Natural Resources for investigations in plant industry, animal industry, fisheries, and forestry, the sum of ₱1.2 million, about one-fourth of one percent of the budget. Most of this will go into salaries, wages, travel, and miscellaneous expenses, leaving but a minor part for actual experimental work. The fact is that for the basic informational needs of the industries that constitute the backbone of the entire economy, almost a negligible amount is provided in the national budget. When it is considered that Philippine agriculture is regarded by its most sincere friends as very backward and susceptible to quick improvement, the neglect of even elementary experimental work on which its advancement depends is difficult to understand.

The neglect of experimental work is serious enough, but the lack of an efficient agricultural extension service is even more lamentable for there is much useful information already available which could be put into practice. There is an extension division in the Bureau of Plant Industry, but it has little money, is strangely limited to plant production, excluding forage crops, and its work is encumbered by the regulatory duties of the men employed in the provinces to carry out its functions. Each of the other main bureaus having to do with agricultural subjects, such as livestock and soils, does its own extension work. So also do forestry and fisheries.

This situation is recognized by almost everyone familiar with it as one of the great stumbling blocks to an efficient extension organization. It is reasonable for forestry to have its separate organization, for that bureau is engaged in the very specialized functions of supervising and scaling the cut of timber, and in reforestation activities. Somewhat the same case can be made for fisheries. But the other bureaus need an overall extension division free of any and all regulatory duties and devoted solely to getting already tested improvements into farming practice. This is the basic need of Philippine agriculture.

The extension agents in the provinces should cover the whole range of agriculture including livestock production. The extension agents would be concerned with all field crops, horticulture and gardening, livestock and poultry, soils and conservation practices, irrigation, disease and insect post control, marketing, the development of cooperatives and credit facilities (but not the operation of them after their establishment), and any others pertinent to the improvement of agricultural production and the welfare of farmers.

To attempt a division of such extension work, each aspect with its separate agent, is entirely unpractical. Even in highly developed and prosperous agricultural communities it would still be unwise. Specialists in the various fields should be employed as it becomes necessary. They can cover a much wider territory than the extension agents, for they work with each agent only long enough to see that he understands the project to be undertaken. If club work with boys and girls is undertaken in a province, it would be desirable to have a person assigned to that, but he should be responsible to and work under the direction of the extension agent. Indeed, such club work can be made into the most successful means of agricultural education and community well-being.

Since the ultimate objective of a more productive and enlightened agriculture is the improvement of the life and the revival of the hopes of the Philippine people who till the soil, it would be a serious oversight not to call attention to the role that well-trained women, organized under a division of Home Economics Extension, can play in the educational program. The home phase of the agricultural problem should be recognized and the work directed so as to penetrate the homes of the poor who live in barrios and the smaller towns, where the most improvement must eventually come, regardless of how difficult the beginnings may be.

The most portentous development with respect to the relation of the Government to agriculture is the corporations which have been set up to produce and to trade in various agricultural commodities. Almost without exception they have involved heavy costs for little or no achievement. These Government corporations are the greatest threat to the development of a sound agricultural program in the Philippines. They deplete the national Treasury and undermine the work of the Department of Agriculture and Natural Resources. They are expropriating many of its prescribed functions. Armed with large funds under their control, the corporations pay high salaries, while many good agricultural scientists employed in government bureaus are receiving less than ₱1,800 a year. The effect of the waste and general inefficiency of these corporations is reflected in the morale of government employees throughout the country. With a great and really critical job to do in agricultural production at the present time, the government should spend its limited funds more judiciously.

The blunt fact is that establishing large Government corporations disposing of vast resources is not a method suited to dealing with the basic problems of Philippine agriculture. Their net effect is harmful because they result in neglect of the constructive measures that can be taken by directing resources from where they are needed to costly but fruitless projects on a grand scale. Agricultural projects must be administered by agricultural scientists, for their success depends on competent direction. All Government corporations having to do with agricultural production should be liquidated. Such work as they now do which is useful should be turned over to the Department of Agriculture and Natural Resources.

Agricultural education and research

One of the bright spots in Philippine agriculture and forestry comes from the enthusiastic and competent Philippine scientists who are engaged in this public service. Their educational preparation is a splendid tribute to the foresight and perseverance of a number of strong educational leaders of the past generation. These men made their contributions while on the staff of the University of the Philippines' College of Agriculture at Los Banos.

REPORT ON THE PHILIPPINES

Los Banos has long been known and highly regarded by agricultural scientists and foresters in Southeast Asia and in other parts of the world. Every mission that has dealt with Philippine agriculture has recognized the constructive and vital role of the institution in the training of the research, extension, and instructional personnel of the country. There seems to be considerable evidence, however, that the institution is losing ground. It lacks the funds to attract and hold the younger men on the staff and it needs the stimulating exchange of personnel with other countries. Most of this is doubtless due to the war; but whatever the reason, it is of primary importance to correct the situation. The rehabilitation of its buildings and equipment, including livestock, should be completed as quickly as possible and money provided to raise the salaries of the staff.

With the provision for these improvements, Los Banos should become the Central Experiment Station of the Philippines. It has long been the preeminent teaching center, but what research it has been able to carry on in the past has had to be very largely done on the spare time, or overtime, of the staff. While very good work has been accomplished, the demands of agriculture require a much more concerted attack on the basic research problems. While regional substations for experimental work are necessary because of the diversity of climatic conditions, soils, and crops, a central coordinating research agency is a prime essential. This was recognized in 1918 when a substantial appropriation was made for agricultural research at Los Banos; but the logic of that action was soon forgotton for only one such appropriation was made. The need for a central experiment station operated as a part of the College of Agriculture cannot be too strongly emphasized.

There are many functions necessary to a good working agricultural organization in any country. In general, a national Department of Agriculture has mainly to do with regulatory work, research, and extension, but often has such other matters as the administration of agricultural credit. Agricultural colleges are traditionally concerned with teaching, research, and extension. Very often, as in the United States, research and extension are cooperative functions of the national Department of Agriculture and the agricultural colleges.

All agricultural agencies find it necessary to perform what is usually known as service work. This has to do with methods and practices that have grown out of research and are provided as extension services, but which do not properly belong entirely in either category. They are such things as routine soil analysis, seed certification, the growing of seed and nursery stock for sale to farmers, and the temporary handling of such materials as fertilizers, insecticides, etc., until they can be obtained from commercial sources.

In the Philippines, the Department of Agriculture and Natural Resources (insofar as agriculture is concerned) carries on regulatory work, research, and as much extension as it can with its limited funds. It operates plant industry experiment stations, livestock breeding stations, and reforestation nurseries, through all of which it performs much of the service work referred to above. Its work is partly supported by tax money allocations by the provinces under the Provincial Fund Act No. 85.

It is quite evident that in the Philippines there will be some overlapping functions between the Department of Agriculture and Natural Resources and the College of Agriculture. Indeed, a certain amount of such overlapping is valuable and necessary. The Department must look to the College for most of its personnel, and the College, on the other hand, cannot train such personnel to the best advantage, or maintain its standard of excellence, without combining teaching, research and extension. It seems quite certain, however, that in the Philippines extension should be the function of the Depart-

ment of Agriculture and Natural Resources for it already has the close cooperation of the provinces and municipalities through its outlying stations and nurseries. The College probably cannot escape some extension, but the organized program and personnel for extension should be in the Agricultural Department.

Both organizations must engage in research, with the Central Experiment station located at the College. They should agree on the locations of regional substations where emphasis can be placed on special crops such as abaca, sugar cane, rice, etc. These substations should be chosen with great care for once they are established, they cannot be easily discontinued or moved.

The agricultural high schools and vocational schools can contribute enormously to the ground work of education that is so deficient in the rural communities. Agriculture needs leaders. Without them farm organizations will not get under way, nor will farm cooperatives which could be so useful right now. It is unfortunate that the secondary schools devoted to vocational agriculture, which had ten thousand students enrolled in 1948-49, lack the accommodations necessary to serve at least three times this number. These schools deserve the generous support of the government.

Land tenure

Land is the most important source of wealth in the Philippines and its concentration or distribution is the primary factor that affects the social and economic well-being of the people. Land has been the safest investment, even under very unstable political conditions. Large profits enjoyed at various times by the landowner class have gone into the acquisition of more land. The result has been that land ownership by farmers who work the land has steadily declined. Land values have risen so much that tenants have little or no chance whatever of acquiring equities in the land they farm.

The strained relationship between the landlords and their tenants and the low economic condition generally of the tillers of the soil compose one of the main factors retarding the recovery of agricultural production. While some laws have been passed to relieve the tenant's plight they have not worked out as expected. The land problem remains the same or worse than four years ago and the dissident trouble has spread to wider areas. Furthermore, there is a great inertia on the part of the government to give really serious consideration to agriculture's many besetting handicaps and long-standing maladjustments.

The Philippine farmer is between two grindstones. On top is the landlord, who often exacts an unjust share of the crop in spite of ineffective legal restrictions to the contrary. Beneath is the deplorably low productivity of the land he works. The farmer cannot see any avenue of escape. He has no credit except at usurer's rates. There is no counsel to whom he can turn with confidence. He is resistant to change for fear of losing the meager livelihood he and his family possess. The incentive to greater production dies aborning when what he regards as an unjust share of the harvest of his work goes to the landlord.

There are some exceptions where rather good relations exist between landlord and tenant, particularly when the landlord takes an interest in improving his land and in the welfare of his tenants. It should be recorded, also, that there seems to be a definite improvement in public sentiment in the direction of doing something about tenantry problems. But the exceptions are too few and far between, and public opinion is very likely a transient response to the more widespread dissident activities, which would probably quickly fade away if law and order could be restored.

The law, now on the books, providing for a 70 - 30 percent division of the crop between the tenant and the landlord should be enforced after it is amended to make it more workable. While the landlord's return should maintain his interest in improving the land, the tenant is entitled to a living from his work and a fair share in the increase in output resulting from the application of better methods of agricultural production.

As restrictions on land ownership already exist so far as acquiring holdings out of public domain, the principle could be carried further to ownership of private lands so as to reverse the long trend of larger holdings in fewer hands. Good land should be purchased by the government for resale in small holdings and on generous terms to those who till the soil.

While land reform appears necessary to provide incentive for increased agricultural production, this should not be taken to mean that there is no economic justification for some large holdings. For some crops large scale production is essential for efficiency. In such cases, enlightened ownership and far sighted management should provide adequate incomes and satisfactory living conditions for laborers and tenants.

Land title registration

The most retarding and disorganizing factor in Philippine agriculture has to do with the registration of land titles and the effect this has on the settlement of farmers on new lands. With the sole exception of tenure problems, more rancor and discontent arise out of title registration difficulties, particularly on the Island of Mindanao, than from any other source. These difficulties are hindering not only the orderly settlement of new lands, but they invite squatting and cause many great injustices. More than that, they are at least partially responsible for the continuation of the old practice known as "caingin" which consists of burning out a patch of forest, raising one crop of corn, and then moving on to some new site to do the same thing. This is a threat to the conservation of large tracts of valuable forest.

Although the destruction of records during the war is an important mitigating circumstance in some provinces, nevertheless one gets the impression that title difficulties are countenanced by design, for they favor the rich and influential, and defeat the efforts of small farmers. They give rise to injustice and breed discontent. The whole morass of land title registration cannot be overcome except through a major effort devoted to the completion of cadastral surveys and adjudication of claims in special courts set up for this sole purpose.

Farm credit and marketing

Large producers and persons holding title to agricultural lands can obtain loans from banks or, under certain conditions, from the Rehabilitation Finance Corporation. But the tenant, the homesteader, or any small operator without such security has no financial institution to which he can turn. Commonly, he gets advances from his landlord if he is a tenant. This is a very old arrangement but suffers from many abuses, one being its use by the landlord to tie the tenant to the land by the overburden of debt. The alternative for the tenant, and the only source of credit usually available to the homesteader or other small farmer, is the Chinese merchant. The Chinese merchant then becomes the marketing agency for the crops of the farmer who is indebted to him, or for the farmer's share of such crops. That is when the real interest is exacted, in the price paid for the crop. Most small farmers never experience a time when they are out of debt.

While the credit-marketing system through Chinese merchants is expensive, it should not be too summarily condemned. The Philippine rural economy would collapse in most communities if the Chinese merchant were suddenly removed from the scene. This is true not only because of the credit he extends, but because most farmers are not equipped to store enough rice or corn for their own use. If they attempted to keep and store even part of the crop, a great proportion of the rice and corn would spoil on account of high moisture content or the ravages of insects. The small farmers, therefore, sell their crops to the Chinese merchants and then later buy back again the grains they require for their current consumption. The Chinese rural merchants perform a service which is not now obtainable elsewhere.

The only solution to this problem is to provide credit for small farmers on tolerable terms. Such a credit system could be established in the form of small Rural Banks, located at strategic points within easy access of the more important agricultural regions. Responsible owners or tenants would be eligible to borrow for periods related to the needs of crop production. With a farm extension service, the farmer would be made aware of the availability of such credit, and his natural fears in dealing with powerful and distant government agencies could be overcome.

The Rural Banks should have associated with them a farm management service, which would provide advice on farm management and the proper use of credit for production and marketing. The members of the farm management service would be available to go over with the farmer his need for credit, his plan to use credit, and the means by which he expects to repay his loan. From time to time, the farm management agent would go over the financial position of the borrower, giving him such advice as he may need.

Fisheries

The fishing industry, which is a major source of protein food in the Philippines, was demoralized following the Japanese occupation. Most of the commercial fishing had been in the hands of the Japanese and was almost totally destroyed. Local and pond fishing was sharply reduced by war damage and neglect.

The Philippine Rehabilitation Act of 1946 authorized the Fish and Wildlife Service to cooperate with the Government of the Philippines in the rehabilitation and development of the fishing industry and to develop a program of conservation of the fishery resources in the Philippines and adjacent waters. A technical Fisheries Mission was sent to the Philippines, and with its aid all types of fishing in the Philippines made considerable progress. However, the authority of this Mission expired on June 30, 1950 and it is feared that much of the progress made may now be lost. The Philippine Government has asked for a continuation of economic and technical assistance in the development of its fisheries and such assistance seems advisable in a program to expand food production.

Commercial fishing has expanded rapidly in the postwar years. The number of vessels engaged in commercial fishing has been increased from 358 in 1946 to 826 in 1949, with more emphasis being placed on power boats than formerly. Despite this increase in vessels, the commercial fish catch is still only about half of prewar. In Philippine waters, the expansion in commercial fishing is limited by the small areas that have a sufficient fish population for economical operation. The technical Fisheries Mission found the most likely areas for pelagic fishing to be in the Sulu and Celebes seas and recommended establishment of a tuna cannery in southwest Mindanao. There are extensive areas for tuna fishing which were formerly fished by the Japanese, and the expansion of tuna fishing in these areas is feasible.

Municipal and sustenance fishing has been given impetus by the high price of fish. Further expansion of this type of fishing appears possible through assistance to local fishermen in getting gear, by providing cold storage transportation to expand the market for fish, and through the development of freezer packers. Pond fishing is expanding rapidly, the catch of 1949 exceeding that of prewar years. It is estimated that up to the present only about one-fifth of the total possible areas for pond fishing has been developed. In order to stimulate this industry, a law was recently enacted permitting the sale of areas for pond fish development which had formerly been available only under lease.

Forestry

Philippine forests are one of the major resources of the country. In 1949 over 53 percent of the total area, or nearly 16 million hectares, were classified as forest land. In an ultimate use classification it was estimated that 12,500,000 hectares should remain in productive or protective forests. Practically all of this land belongs to the Government, and the Bureau of Forestry is responsible for letting out rights to cut timber, supervising the methods of cutting and the areas to be cut. The sustained yield method of cutting is being practiced on Basilan Island and will be expanded to other areas as soon as personnel is available.

Lumber production has recovered completely from war damage and the timber cut in recent years has averaged about one billion board feet annually. Because of the large domestic needs, exports of logs and lumber were restricted until June 1949, but during the past year exports were resumed and met an active demand.

The Bureau of Forestry is efficiently managed, but it is handicapped by lack of laboratory and testing facilities. A cinchona plantation is being developed at the Experiment Station on Bukidnon but progress is restricted by the lack of a pilot plant to study the quality and yield of its quinine from different species and ages of trees. The lack of a forestry laboratory to test the quality and usefulness of forest products retards the development of the forestry industry. Out of over 3,000 species of lumber, less than 60 are now being used in quantity, largely because of the lack of facilities for testing their potentialities.

Forestry is a field in which technical research could increase production while safeguarding forest resources. New markets could be opened through the development of uses for the large variety of lumber some with unique qualities.

Recommendations

1. Emergency action should be taken to deal with the plant disease affecting abaca production, and arrangements made to provide disease-free seed for new plantings. The improvement and expansion of all export crops should be encouraged and additional efforts should be made to bring the Kadang-Kadang disease of the coconut under control. Money now collected and available in the sugar adjustment and stabilization fund should be made available for research in methods of improving production. The possibilities of developing varieties of tobacco more suitable to export needs and for use in domestic cigarette production should be studied.

2. The deficit in the production of food grains is critical. Production of major items could be quickly expanded by adopting improved methods for which information is already available and by the additional use of fertilizer. Funds should be made available for importing fertilizer and irrigation equipment to expand rice and corn production.

3. Greater diversification in agriculture should be achieved by increasing production of crops for commercial use at home and for export. The livestock improvement program of the Bureau of Animal Industry and the breeding program of the College of Agriculture should be given greater support by the Government. The use of by-products for animal feeds should be emphasized and the raising of poultry and pigs encouraged.

4. The Philippine budget should make adequate provision for experimental work, extension service and technical and vocational education in agriculture. The College of Agriculture at Los Banos should be rehabilitated, a central experiment station located at the college and equipped with facilities to carry on the necessary research for agricultural development. Specialized experiment stations should be established in suitable places throughout the country.

5. The Department of Agriculture and Natural Resources should study the problems of land use, land clearance and settlement, irrigation and drainage. The projects of the Philippine Government for agricultural development should be given detailed consideration before they are inaugurated. The Government corporations set up to deal with agricultural production should be liquidated and their functions transferred to the Department of Agriculture and Natural Resources.

6. Laws providing for the division of crops between the tenant and landlord should be amended and enforced to see that the tenant receives an equitable share of the crop for his labors. At the same time, the landlord should receive sufficient return to see that he is interested in improving his land. A broad program should be inaugurated of acquiring large estates at fair value for resale in small holdings to tillers of the soil. New lands should be opened for settlement by homesteaders and their titles promptly cleared. The administration of public lands and the procedures for land-title registration should be thoroughly overhauled. Cadastral surveys should be completed and courts of claims set up to handle land cases exclusively.

7. Rural Banks should be established to provide credit for agricultural production. Loans should be available both to small land owners and to responsible tenants. The rate of interest should be moderate, approximately the same as commercial banks charge for larger loans to agricultural producers in a strong financial position. A farm management service should be operated in connection with Rural Banks to provide farmers with advice on financial problems.

8. Economic and technical assistance should continue to be furnished the Bureau of Fisheries. With the research already conducted by the Fish and Wildlife Service, a small staff of technical assistants would aid materially further development of the fishing industry.

9. A forest products laboratory should be established to test and develop uses for forest products and a pilot plant built to help develop quinine production. Additional appropriations should be given the Forestry Service to place timber cutting on a sustained yield basis and to prevent settling on lands adapted only to timber production.

X. INDUSTRY, UTILITIES AND TRADE

The development of a better balanced Philippine economy will require greater emphasis on industrial production and employment than exists at present. The industrial development of the Philippines should not be thought of as a blind quest for self-sufficiency or for the outward evidence of economic progress. Industrial development cannot come from the establishment of a few large projects which somehow generate an industrial economy. It comes from the establishment of many enterprises, each particularly suited to the economic capacity of its managers, its workers, and its market. The benefits of more efficient production can be fully realized only through more efficient distribution within the country.

Expansion of Manufactures

The number of persons classified as engaged in manufacturing establishments in the last prewar census was just under 400,000. These figures give a distorted view of the extent of manufacturing in the Philippines. The census classification includes in manufacturing every simple processing establishment, such as bakeries, blacksmiths and carpentry shops. In most of these establishments little or no equipment was used, and the sales amounted to less than ₱100 a year in 1938. The staff of the International Bank, in re-working the census data, classified only 78,000 persons as engaged in manufacturing and mechanical industries proper.

The greatest number of people engaged in the census classification manufacturing were self-employed artisans working with one or more members of the family. Of the 398,000 classified as employed in manufacturing, 265,000 were proprietors and other persons not paid salaries or wages. Only 133,000 were paid employees receiving salaries and wages; and of this number, a large part consisted of part-time and occasional employees of small establishments. The average annual earnings of those classified as manufacturing workers was only ₱237 from such employment in 1938.

Table 32. Number Employed and Wages Paid in Manufacturing, 1938

		Number of Employed	Wages and Salaries
Number of establishments	139,407		
Proprietors and others not paid salaries or wages		265,505	(income received as profit or in kind)
Paid employees:			
Managers, supervisors, etc.		4,563	7,950,212
Office employees		11,380	6,177,359
Manufacturing laborers		117,051	27,746,190
Total employees		132,994	41,873,761
Total gainfully employed		398,499	

Source: Statistical Abstracts, Bureau of the Census and Statistics, 1942, p. 100.

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The development of industrial production in the Philippines is clearly not simply a matter of establishing a few more large plants, each employing a large number of people. Apart from the lack of economic feasibility of such enterprises, it would mean that very few people would have the opportunity to benefit directly from employment in such undertakings. The common sense of economic development in the Philippines is to make it profitable and possible to establish many enterprises, each employing a moderate number of workers, better equipped to produce efficiently the goods that can be marketed in the Philippines and in other countries.

The people of the Philippines have an aptitude for mechanical work. This is the experience of American firms operating in the Philippines. Workers of Philippine nationality are frequently preferred by American enterprises undertaking construction and development projects in the Far East. There is no reason to doubt that an adequate and competent supply of labor would be available for industrial undertakings. Furthermore, a good deal can be done to improve the supply and quality of skilled labor by greater use of vocational schools and on-the-job training.

The Philippines produces a large quantity of agricultural and mineral raw materials that can be fabricated for domestic use and for export. In processing such goods, there are economies that can be derived from the nearness of supply and the advantages of shipping less bulky finished products. The Philippines also provide a substantial home market in which domestic goods can be sold. In 1949, before import controls were effective, the Philippines imported about $1.3 billion of goods, largely manufactures of a simple character which require no complex industrial plant or refined industrial techniques for their production. This excessive dependence on imports will have to be reduced to enable the Philippines to balance its international payments. From the point of view of development, it indicates the existence of a large market for such imported goods, some of which could be produced economically in the Philippines.

About 8 percent of the total imports of the Philippines in 1949 consisted of canned and other processed foodstuffs. This is a field in which local production could be greatly expanded, particularly if it were associated with a corresponding increase in production of foodstuffs. The canning of fish and fruits is an industry that could be developed by rehabilitating prewar canneries and building new plants. Part of the foodstuffs processed would be available for export, although the emphasis should be on low-cost foods to meet the needs of the local population.

About 20 percent of the total imports of the Philippines in 1949 consisted of textiles and manufactures. Most of the textile producing facilities of the Philippines were destroyed during the war and have not been adequately restored. There are industries which could produce economically, particularly the weaving and manufacture of cheap clothing during the off-season in agriculture. The existing machinery is in disrepair and lacks spare parts. Use of modern machinery would permit greater concentration on a restricted line of low-price goods. Technical aid could be very effective in reviving and expanding textile manufactures.

Chemicals, drugs, and fertilizers accounted for about 5 percent of the total imports of the Philippines in 1949. Many of these goods could be produced economically. The raw materials are available and some local production has already begun. The need, particularly for fertilizers, is very great, and domestic production would find a profitable market. It would be of inestimable benefit to Philippine agriculture to have a plentiful supply of cheap fertilizers, particularly agricultural lime, superphospate and ammonium nitrate.

INDUSTRY, UTILITIES AND TRADE

A gradual improvement of the Philippine standard of living will require a comprehensive, low-cost housing program. Increased production of local building materials is particularly desirable. The building and repairing of small boats, lighters, assembly and repair of motor vehicles, and the manufacture of animal-drawn vehicles were successful in the Philippines before the war. A development of these local manufactures using mostly local raw materials could be undertaken.

The processing of copra and coconut oil is an established industry which could be expanded for greater manufacture of edible oils and margarine. Manufacture of rope and cordage of better grades could also find good markets. Finishing mills, veneer mills, wood preservation and wood treating plants for processing the better grades of lumber can be developed. All these are industries in which the Philippines have long been suppliers of semi-manufactured goods. Mechanized plants for economical utilization of agricultural waste products, such as production of alochol from sugar bagasse, production of paper from bamboo, manufacture of wall board, etc. are practical.

The almost one-sided concentration of manufacturing above the handicraft stage in Manila and its suburbs is prejudicial to economic progress in other parts of the country. In 1939, the average number of persons employed in each manufacturing establishment was 17.4 in Manila and 2.5 outside Manila. While the economic advantages of location in Manila are clear, there are instances in which location in other parts of the country would be more economical. Cheaper land, access to raw materials, availability of labor, and low-cost power can be found outside Manila. The authorities concerned with Philippine development should provide special encouragement to local communities and local business men for the development of industry in the provinces.

The emphasis on industrial development should not lead to neglect of handicrafts. The agricultural workers of the Philippines should be helped in developing household industries that will provide income during the non-farming season. Philippine embroideries are well-known in world markets. The American market is distinctly friendly, and its awareness of such Philippine products can be increased by more forceful marketing. At the present time production is sporadic, and limited to work on a "jobber basis". A good sales organization in the United States, proper packaging and advertising methods might increase considerably the market appeal for such goods, and also of such products as kapok, rosins, pearls, sponges, jusi, pina.

Development of mineral production

The mineral resources of the Philippines are varied and extensive. They contain gold, base metals, and important non-metallic minerals. They may include oil for which some prospecting is now going on. Large parts of the Philippines have never been explored and geological reconnaissance, surveying and mapping, and exploration and prospecting may disclose economically important new mineral deposits.

The mineral industry expanded remarkably during the decade immediately preceding World War II. From 1931 to 1940, the value of mineral production increased from ₱7.5 million to ₱95 million, most of the increase being attributable to expansion induced by the higher price of gold. At the advent of the war in 1941, the industry was healthy, still growing and steadily increasing its contribution to foreign exchange receipts. Indications were that the value of mineral production for 1941 would have ex-

ceeded ₱100 million and that it would have eclipsed sugar as the major contributor of foreign exchange to the Philippine economy. About 70 percent of the total value of mine production was represented by gold.

Metallic mineral production has made substantial recovery since liberation, except in the production of gold. For some base metals, output is now greater than before the war. Mineral production could undoubtedly be expanded very considerably. However, the venture capital required for any large expansion of production is presently lacking and will become available only if conditions conducive to its employment in the industry are re-established. One point that should be mentioned is the limitation on the employment of foreign engineers and technicians. Their services are essential at this time to the development of mineral resources and will continue to be required until sufficiently trained and experienced Philippine personnel become available.

A five-year program for expansion of its activities has been presented by the Philippine Bureau of Mines. The estimated cost is ₱17 million. The fundamental purpose of this program has merit, but in its early stages will require technical assistance from the United States. The Philippines need additional facilities for the education of engineers and geologists which could be provided by a school of mineral industries and sciences at the University of the Philippines.

Prompt consideration should be given to the development of production of various strategic minerals for which the United States provides an exceptionally favorable market. For this purpose, discussions should be held by the representatives of the Philippine Government with the appropriate procurement authorities of the United States Government. Long-term arrangements to assure production and markets could be made to the common advantage of the two countries.

The difficulties now encountered in producing gold arise almost entirely from the very high costs compared to prewar. The arrangements permitting three-fourths of the output to be sold in the domestic free market at a premium price enable the producers to meet costs, even with one-fourth of the output sold to the Central Bank at the official price. Alternatives should be considered that would maintain the incentive to produce gold without selling a large part of the output for hoarding. If satisfactory arrangements could be worked out, the newly-mined gold would make a substantial contribution to the foreign exchange receipts of the Philippines.

The natural resources of the Philippines warrant an aggressive exploration and development program. There are indications of substantial mineral deposits including natural gas, iron ore, pyrites, phosphates and sulphur. They constitute one of the main assets of the Philippine economy. Development of mineral resources in the Philippines will require considerably more capital and modern techniques than are now available locally. Studies should be made without delay to determine the modern equipment, means of transportation, flotation and other techniques that would permit a development of mineral deposits. Detailed engineering surveys of all coal and iron mines, of lead and pyrites and other deposits should then be undertaken with a view to developing local production wherever it is economically possible.

Power and fuel

A basic factor in building any kind of industry is the provision of fuel and power. The coal resources of the Philippines are of a poor grade

and in the past could not be economically developed. While there is a possibility of the existence of oil resources in the Philippines, exploration is hampered by a too restrictive policy on leases and lack of sufficient capital for the vast requirements of a successful exploration program. More intensive investigation needs to be made of the possibility of developing such resources.

Extensive studies have been made by the National Power Corporation, with the aid of American consulting engineering firms and manufacturing concerns, of potential hydro-electric power resources. Any program for industrial development should include those hydro-electric projects which can be developed effectively and economically, either by the expansion of the existing utility systems or, if private capital does not do so, through the efforts of the National Power Corporation. Hydro-electric projects require long periods of planning and construction. Therefore, in estimating the required generating capacity it is important to be foresighted in the forecast of demand in planning for the maximum and most economical utilization of power resources. The power requirements of the country are basic to its development.

It is necessary to provide sufficient power for the growing loads of Manila and Baguio, to make possible the overhaul and possible withdrawal of the Army's floating power plant, and for such new industrial demand as will materialize from an expansion of industrial production. There are also a number of small, obsolete oil units operated by municipalities and private industries that should be connected to an electric system. This would provide power more economically and save the cost of some imported fuel.

Imports of fuel oil constitute a continuous drain on exchange resources (around ₱70 million per annum). Industrial and agricultural development will bring about an increased demand for petroleum products in a period of shortage of foreign exchange. For this reason a petroleum refinery to process imported crude oil, if well designed, with particular emphasis on kerosene and cheap motor fuel, would be a highly desirable project. It would bring down the price of an important item of domestic agricultural and industrial consumption. Such a refinery would also provide valuable raw materials for the manufacture of chemicals.

Transport, public works and services

The development program of the Philippine Economic Commission includes large provision for transportation, telecommunications, and public works.

There is great need for a complete technical and management survey of the Manila Railroad -- an essential part of the country's insufficient transportation network. Such a survey should determine whether additional rolling stock, improved repair shops, and reorganization of competing traffic and operations would bring the railroad to proper efficiency. The Manila Railroad is now in default on certain of its obligations. The financial affairs of the railroad should be regularized and its operations placed on a paying basis.

Inter-island shipping is in a precarious position because of the uncertainty as to the future status of the ships now under charter. It is suggested that the Maritime Commission of the United States Department of Commerce make a complete review of the long-term program for inter-island shipping.

In the field of telecommunications, telephone operations have suffered severe damage from the war. Both private and government telephone services are inadequate and need carefully planned and integrated expansion.

The development program prepared by the Philippine Commission includes an estimate of ₱73 million for public works, of which ₱30 million are proposed for highway improvement. The highway program has been studied in detail with the technical assistance of the United States Public Roads Administration. Present road transportation, and especially bridges, are inadequate. Existing roads are not properly maintained. There is need for better scheduling and auditing of the road maintenance expenditures which run at a much higher rate than new road construction. Substantial savings could be realized in highway maintenance and provide sufficient funds to finance new roads.

In connection with the government's program for resettlement and increased agricultural production, priority should be given to the construction of new roads in Mindanao. Priority should also be given to access roads to those plantation, lumber and mining areas where better transportation might favor additional production of export products such as abaca, better grades of lumber, and strategic minerals.

The local construction industry has accomplished a great deal during the postwar rehabilitation period and is important to all fields of industrial development. This industry lacks modern heavy construction equipment such as bulldozers, dump trucks, heavy cranes, rolling equipment, and material handling facilities that can withstand the poor roads and severe strains. It is desirable to improve the capacity for efficient construction.

Role of the government

The Philippine Government has been concerned with plans for the economic development of the country since the report of the Joint United States-Philippine Preparatory Committee of 1937, which urged the need for agricultural diversification and industrial expansion.

A revision of the 1948 Five-Year Plan in August 1950 was submitted by the Philippine Economic Survey Commission, appointed by the President of the Philippines to cooperate with the United States Survey Mission. This latest program comprises many important projects, some of which have been given careful engineering study and appear economically justifiable. The aggregate cost of the industrial, utility and mining projects in the 1950 program is estimated at ₱429 million, of which ₱234 million represents the cost of imported equipment and materials. The program covers the period to 1954.

The program of the Philippine Government sets a broad framework from which to formulate further plans and to select individual projects after a thorough and complete engineering and economic study. It contains no provisions for measures to increase production from existing facilities. The magnitude of the program that should be undertaken at this time is limited by a variety of factors. It is not only a question of finance, but more important is the rate at which engineering, planning and construction can proceed, the availability of raw materials, and the need for power and fuel which must be met. Of special importance is the need for engineering and management personnel to assure the planning, scheduling and efficient operation of the investment that is undertaken.

INDUSTRY, UTILITIES AND TRADE

The available technical and management skills in the Philippines will not be sufficient for extensive development of industry for some time. That does not mean that industrial development must be postponed. It does indicate that rapid progress must be made in the training of engineers and business managers. This deficiency must be overcome by providing engineering education and by providing experience in actual operation. In the meantime, use should be made of competent and experienced planning, managing, and technical personnel from abroad.

It is clear that the Government will have to take an active part in stimulating economic development in the Philippines. It will have to provide much of the planning and some of the construction for major enterprises. It will have to help private enterprise with technical assistance. It will have to give financial assistance to stimulate private investment in the industrial fields of special importance to the economy. Precisely because of the large part that will have to be undertaken by the Government, it is important that its functions in this field be clear, and that it be prepared to perform these functions with honesty and efficiency.

The Philippine Government has for many years been operating various agricultural and industrial enterprises through Government corporations. The National Development Company was originally organized in 1919. Existing Government corporations were reorganized and certain new ones created between 1938 and 1941. In the postwar period, new corporations were organized for a multitude of purposes. The common experience was that a corporation once started, grew and took on new functions.

There are now 24 Government corporations, not including subsidiary enterprises. They have come a long way from their original objective of creating industries to stimulate domestic production for export and for home needs. Their management has become cumbersome and burdensome. The directors of the Government corporations commonly include Cabinet officers, many of whom serve on a number of government boards, for which special remuneration is given. This involves more or less haphazard direction, so that the efficiency of the Corporations and the Government service is adversely affected. By the most generous evaluation, the larger number of the Government corporations are inefficient, wastefully operated, and in some instances they have been misused.

Before the Government undertakes the responsibilities of the development program it should clean house in the existing corporations. What is of primary concern is that the development in the Philippines should be well and economically managed. To encourage manufacturing development by private enterprise, except in those instances in which private initiative is not prepared for such undertakings, would relieve the Philippine Government of much of the problem of finance, and assure a management with a basic interest in efficient and economical production. The development program provides the proper occasion for putting into effect a much needed reorganization of all Government enterprises.

The extensive report of the Committee on Reorganization of Government Corporations submitted to the President of the Philippines on August 18, 1950, recognizes the defects in the operation of the government-controlled corporations and proposes to bring down their number to 16. It recommends that in the development of Philippine resources preference should be given to private industry (if necessary, with government financing in the form of preference shares), and that the government withdraw from trading activities on export products, from agriculture, and from other activities that are now in competition with private industry. The report proposes the abolition of PRATRA -- a recommendation that the Mission strongly endorses. If the recommen-

dations of the Philippine Government Committee on Reorganization are promptly implemented, a good start will be made toward more efficient development of the Philippine economy.

All Government corporations should be placed under consolidated full-time management, free from any other obligation than to manage these corporations in the public interest. This could be done by establishing a Philippine Development Corporation as the responsible holding company for all Government corporations. Its common stock would be wholly owned by the Government, and would be issued in exchange for the Government's equity in the various organizations. Whenever necessary, the Government would also subscribe to additional shares to provide capital for the operations of the corporation. The directors of the Philippine Development Corporation would be Government appointees, barred from holding any other Government or private position.

The first big task of the proposed Philippine Development Corporation should be to liquidate or sell those Government concerns which are either useless or which can be more effectively managed by private enterprise. It will be important for the Philippine Development Corporation to provide trained personnel that would be available for all Government enterprises, and available on a consultative basis to such private enterprises as receive credit from the PDC. An engineering advisory service and an industrial research service could be of great help to small and moderate sized industrial enterprises. There is no reason why the Philippine Development Corporation should in any way be restricted in the nationality of the personnel it employs. While it would naturally wish to open the widest opportunity for Philippine technicians, it should not be restricted in its right to employ such foreign advisers and technicians as it needs. In selecting foreign advisers and technicians preference should be given to men capable of developing a staff of Philippine technicians who can in time carry on the work.

The proposed Philippine Development Corporation should be authorized to provide financial assistance for the development of agricultural and industrial production. For this purpose it must have resources that can be used for loans for approved projects. Under no circumstances should the financial resources of the Philippine Development Corporation be used to salvage inefficient and losing concerns. Its primary task in finance is to aid qualified industries that are prepared to devote their own resources, and whose credit can command outside resources, by providing additional capital for larger operations.

The provision of finance for existing or newly-established industrial enterprises involves complex problems. It is proposed to establish an Industrial Finance Department in the Philippine Development Corporation. The financing of industry through this department should be entirely on a business basis, involving complete absence of personal and political considerations. To assure such an approach to the problem, the Industrial Finance Department should under no circumstances provide all of the resources for any enterprise, new or old. The prerequisite for financial assistance should be that the owners and managers of the enterprise are prepared to provide a large portion of the capital themselves. The financial arrangement should in every possible case be made through an existing banking institution with the greatest possible participation of the institution.

The Industrial Finance Department would be authorized to make loans or acquire the securities of any industrial corporation in a good financial position. In acquiring securities, the Industrial Finance Department

would have the right to dispose of such securities in the market at any time. Corporations indebted to the Industrial Finance Department would pay only limited dividends until the debt had been paid off.

Where industrial enterprises need capital for a relatively shorter period, say up to five years, the Industrial Finance Department would be authorized to provide such finance, preferably through an existing commercial bank. It would undertake to guarantee any new loans, at the time they are made, up to a maximum of 80 percent of the loan made by the bank. If the bank uses the funds of the Industrial Finance Department, the bank would receive a modest commission for managing the loan.

The important work of the Industrial Finance Department is not to provide funds at low interest rates. Its task is to encourage businessmen to risk their capital and give them aid in establishing new enterprises or expanding old ones. It cannot and should not displace other facilities for finance, through the securities markets or through banks. It will do its work best if it provides capital on a conservative basis and at the going rate of interest for projects that can pay their way. The Philippine Development Corporation should by law be forbidden to make loans or provide any financial assistance, directly or indirectly, to any person employed in the Government or occupying any elective office in the national or provincial government. This same prohibition should extend to any corporation in which a government official or employee has an interest, except through minor holding of securities in a corporation whose issues are listed on the Manila Stock Exchange.

Internal Distribution

The establishment of new industries and increased agricultural production will provide more products, but provision must be made for the distribution of goods to the consumers at the lowest cost possible. Other problems in the field of distribution include the present concentration of primary distribution facilities in Manila, the numerous middlemen in trade channels, the efforts being made to displace foreigners engaged in trade, and uncertainty as to the role of the Government in commercial activities.

Goods transported from Manila, the port of entry for about 90 percent of Philippine imports and the source of a large part of domestically-produced manufactured goods, may pass through the hands of several middlemen before reaching the small villages in the provinces. Individual profit margins accumulate, resulting in high cost to the consumer. Handling charges at the ports are considered among the highest in the Orient. Transportation costs from Manila to the outlying areas are high. Decentralization of production, additional port facilities, more warehouses for the storage of goods, and better transportation and communication facilities will do much toward lowering transportation and handling costs.

Despite their high operating costs, small dealers play a very important part in the economic life of the Philippines. They often provide the credit facilities for trade, both as purchasing and selling agents. In the absence of competitive facilities and better marketing arrangements in remote areas, some of these dealers have received a disproportionate share of the value of the goods. An improved marketing program and credit facilities for small farmers, the decentralization of distribution facilities and better means of transportation and communication should in time assist in reducing abuses and in giving the consumer cheaper goods and the primary producer better returns for his products.

REPORT ON THE PHILIPPINES

A large share of all commercial activities is controlled by aliens, and drastic laws and regulations have been used to increase the role of Philippine nationals in trade. Among these are the provisions of the import control law which will reduce the share of established foreign firms to 50 percent of the import trade by 1952-53, total imports already having been sharply curtailed. The balance is intended to be reserved for new importers who must be Philippine or United States citizens. Activities of PRATRA have been openly directed toward supplanting foreigners in import trade, particularly in the case of flour.

These laws and government activities thus far do not appear to be bringing about a healthy growth of direct Philippine participation in trade. Instead they tend to encourage evasion of laws. Many "new importers" serve as intermediaries for others, resulting in higher costs for the consumer and a general lowering of business standards. Most of the new importers have neither business experience nor the necessary facilities to do a competent job of distribution. The import control law was designed primarily to secure imports of essential products with limited dollar funds, but it has been used as well to drive certain groups out of business. This mixture of objectives has had a harmful effect on the business life of the community. Philippine nationals should play a larger role in trade and commerce. It would be preferable, however, to give positive assistance to enable them to compete successfully in the trade field. Such assistance might include improved credit facilities, good commercial schools, apprentice training in established firms, and dissemination of information on the most efficient methods of operating commercial establishments and information on new opportunities in distribution enterprises.

The extent to which the Government intends to retain and increase its activities directly in the field of commerce has been a source of much concern to the business community. In August 1947 the functions of relief and distribution of scarce goods were absorbed by the Philippine Relief and Trade Rehabilitation Administration (PRATRA) which also took over the functions of the National Trading Corporation and the merchandising activities of the National Cooperative Administration, both pre-war agencies. The Government became an important factor in trade with the establishment of PRATRA, whose powers were further enhanced by the Price Control Act of 1950. Scarcities can be used as justification for the Government to take over functions normally handled by private business, and such scarcities can arise from injudicious use of powers existing because of import and exchange controls.

Most of the Government's activities in trade, other than those of a regulatory and trade assistance character, appear to have been unnecessary and uneconomic. Experience with several key commodities under Government control, particularly flour, fertilizer, and galvanized iron sheets, indicate the difficulties resulting from Government participation in commercial trade. Clear-cut Government policies and consistent regulations, both in relation to protection of the legitimate interests of foreign business men and to furthering of private commercial enterprise, need to be established in order to promote the economic development of the country and to attract private capital both at home and from abroad.

Recommendations

1. The industrial development of the Philippines is necessary to increase economic opportunities, to diversify the economy, and to help raise the standard of living. The most promising fields for development of local

manufacturing is in the processing of local raw materials and the production of some imported goods for which a favorable market at home already exists.

2. The mineral resources of the Philippines should be explored more thoroughly to facilitate expanded production of strategic materials such as lead, copper and iron ore. Cooperation between United States procurement agencies and the Philippine Government would help to determine the minerals for which good markets can be found. Technical assistance will be necessary to help explore for and develop the mineral resources of the Philippines. The present provisions governing use of the public domain should be reexamined to determine whether they hamper development.

3. The economic development program of the Philippines should be given constant and detailed engineering and economic study, and measures taken promptly to provide for the power needs of the country. The coal, gas and oil resources of the country should be explored more thoroughly. A petroleum refinery should be established to process imported crude oil.

4. Transportation facilities should be improved and extended. A survey of the economic possibilities of the Manila Railroad and of improvements in its operation is necessary. Highway maintenance should be placed on a more efficient basis, and new access roads built to the agricultural and mining regions that are to be developed. The public works program should give greater emphasis to sanitation, irrigation and other essential public services.

5. A Philippine Development Corporation should be established to take over the responsibility for managing the Government corporations and enterprises. The recommendations of the Philippine Government Committee on reorganization of these corporations should be implemented, and those that are not capable of being economically operated and managed should be liquidated. The management of the enterprises that are continued under Government operation should be made efficient and political control eliminated.

6. The Philippine Development Corporation should have resources to help in agricultural and industrial development. Loans for industrial development should be made in cooperation with the private banking system. The Corporation should provide an industrial engineering service to help in the location and setting up of industrial plants and an industrial research service to help in meeting production problems.

7. The development program should take adequate account of the need to provide for more efficient distribution facilities to lower prices to consumers and increase returns to producers. Special attention should be given to the marketing needs of provincial areas by improved port, warehousing and transportation facilities. Direct Government trading activities should be held to a minimum.

XI. FISCAL, INVESTMENT, AND CREDIT POLICY

The principal financial task facing the Philippine Government is to increase tax revenues. This is necessary if the ordinary functions of government and a program of economic development are to be carried out without the risk of further inflation. The present tax structure ought to be revised to increase the proportion of tax revenues collected from high incomes and large property holdings. There is no realistic prospect of balancing the government's budget by reduction of expenditures although some economies can and should be made.

Fiscal policy

Most of the services performed by the government are essential ones that cannot be dropped or reduced in scope without impairing the well-being of the nation. The largest single item in the national Government's budget is public education, accounting for about 27 percent of total expenditures. This high proportion of spending on education is not an indication of a luxurious school system. The typical child receives only from four to seven years of schooling; and teachers' salaries are low. The second largest item in the government's budget is for national defense and police, accounting for about 22 percent of the total. With the spread of the Hukbalahap movement, and the increase in other forms of lawlessness, this item cannot be reduced and it may, in fact, have to be increased. The third major item in the budget is investment for economic development, accounting for approximately 14 percent of total expenditures. This amount could probably be reduced as an emergency measure; but some investment in public works will have to be financed by the government if economic development is to become a reality. The remaining disbursements of the national Government are for the usual public services, many of them performed on a very modest scale.

There are no doubt means of effecting some economies in government administration through the consolidation of functions and the elimination of ineffective personnel. On the other hand, it is apparent that expenditures will have to be increased for public health, education, agriculture, and various types of public works. Furthermore, an effective reform of public administration in the Philippines will necessitate the payment of higher salaries to public servants. While additional revenues can be collected by more efficient administrative procedures in the bureau of internal revenue and the bureau of customs, a substantial increase in taxes will still be necessary.

On the basis of present conditions there is every reason why the budget should be balanced. The economy of the country does not permit the continuance of the present unsound financial practices. To balance the budget, without neglecting essential public services, will require annual revenues of about ₱200 million in excess of those of 1950. Such an increase in taxes involves raising Government receipts by about 60 percent over the present level. While this looks large, it is not an unreasonable goal, taking into account the present level of national income in the Philippines. It would still leave the total tax collections of the national and local governments at only about 12 percent of gross national product and transfer income from abroad, a lower proportion than for many low income countries.

Of equal importance is the need to change the tax structure so that a larger share of the tax burden in the future will fall on those better able to afford it. The present Philippine tax system is heavily weighted against those with low incomes. In 1949, for example, the national Government obtained only ₱50 million from corporation and individual income taxes, and

from death and gift taxes, as against ₱262 million from sales taxes, excises, import duties, and other taxes which bear proportionately more heavily on low income groups. Of the ₱103 million raised by local governments, only ₱28 million came from the real property tax. Other local taxes were weighted against those with low income. If tax revenues were increased without modifying the present tax structure, it would be grossly inequitable.

Another important tax need is to reduce the present large number of minor taxes. There are many taxes that involve an administrative burden out of all proportion to the revenue they bring in, and which can and should be eliminated. There is especially a need for greater simplicity and certainty in legislation and administrative procedure, and for more vigorous collection of tax liabilities. The relationship of local and national government functions and taxes should be more clearly defined and agreement reached on the division of their respective responsibilities.

A start must be made now on a program of this nature if tax revenues are to be increased without further inequities and waste. A comparatively simple program of tax reform is, accordingly, suggested for immediate adoption, designed to produce about ₱150 million of additional revenues annually in a full fiscal year for the national and local governments, without straining the government's administrative facilities for collecting taxes. This would correct some of the major defects of the Philippine tax structure and provide a basis for further steps toward complete tax reform.

Full details of such a tax program are given in a memorandum prepared by the Tax Adviser to the Mission. Its principal features are summarized below.

For the national Government:

(1) An increase in the excise taxes on cigarettes and distilled spirits, and in the excise tax on gasoline. Coupled with some relaxation of import controls on such goods, it is estimated that these taxes can produce an additional ₱78 million of revenue.

(2) An increase to 100 percent of the sales tax on non-essential goods, such as perfumes, playing cards and passenger cars, and an increase to 20 percent in the tax on trucks, tires, and accessories. It is estimated that these taxes can produce an additional ₱10 million of revenue.

(3) An increase in corporation and individual income tax rates and a reduction of individual's exemptions. It is estimated these taxes can produce an additional ₱20 million of revenue.

(4) Revision of the residence tax to provide further taxation of individual income and property holdings at progressive rates. It is estimated that this can produce ₱25 million of additional revenue.

(5) Reorganization and increase in rates of estate and gift taxes. It is estimated this can produce ₱3 million of additional revenue.

For local governments:

(1) An increase in assessments of property values putting them more nearly in line with actual values. It is estimated that this can increase the tax revenues of local governments by ₱15 million, reducing

the necessity for their receiving grants from the national Government. In this respect, the increase indicated above in gasoline taxes would also ease the financial situation of local governments as part of the proceeds of these taxes go to local governments for highway maintenance.

The impact of this program on the present tax structure may be summarized as follows:

Table 33. Estimated Tax Collections Under New Program

	Estimated Collections Under Present Tax Structures*	Estimated annual Increases under Program Recommended in Report
National Government		
Excise taxes and import duties	102	₱ 78
License and business taxes 1/	102	₱ 10
Income taxes	52	₱ 20
Residence tax	4	₱ 25 2/
Estate, inheritance and gift taxes	4	₱ 3
Other taxes	17	--
Other receipts	56	--
Total	337 3/	₱ 136
Local Governments 4/		
Property taxes	28	₱ 15
Other taxes	81	--
Total	109	₱ 15
Grand Total	446	₱ 151

*Includes additional revenues voted at the special session of Congress.

1/ Includes sales tax.
2/ Of which, income component is 10 million and property component 15 million.
3/ Includes 22 million of apportionment of internal revenue and motor vehicle tax to local governments.
4/ Based on 1949 data.

At present rates of expenditures, adoption of this program would go a very long way toward balancing the budgets for the national and local governments, after the collections begin to be effective for a full fiscal year. It would provide an immediate respite against inflation and an opportunity for study and reform of the tax systems of the national and local governments in the interest of further simplification, efficiency and equity. Its immediate adoption, accordingly, is urgently recommended.

The proposed tax program would not begin to provide the contemplated revenue until the fiscal year ending in 1952. As it is most inadvisable to delay the balancing of the finances of the national Government beyond this calendar year, additional revenues of approximately ₱60 million annually must be raised at once. Because of the need to improve the international

payments position, it would be desirable to secure the additional revenues through taxes that will have the greatest effect in reducing the demand for imports.

Alternative methods of doing this are discussed in detail in Chapter XII. The first is a special emergency levy of 25 per cent on all imports except rice, corn, flour, canned milk, canned fish, and fertilizers. For the duration of this emergency import levy, the ordinary sales tax of 7 per cent would be suspended. The second is a further increase in excise taxes on luxury goods, primarily import goods, that would increase the rates beyond those set forth in the program summarized above. The third is a tax of 25 per cent on all exchange remittances, with provision to offset the effect on the same essential imports which would be exempted from the special emergency import levy. The taxes used to raise the additional revenues that are needed now would be of an emergency nature, to remain in force for a period not exceeding two years. They would be replaced by such other taxes as seem best suited to the Philippine economy after the effects of the long period tax program can be seen.

Financing development

The basic source of funds for financing development without inflation is domestic savings that are channelled into agricultural and industrial investment. Regardless of their form, all savings, with the exception of deposits abroad, directly or indirectly facilitate investment of one type of another. They do this directly by providing the financial means to acquire investment resources or indirectly by freeing the real resources so that they can be used for investment by others. The reason for seeking to mobilize savings for agricultural and industrial development is not that the savings would otherwise be lost to the economy, but that it is preferable to have them invested in this form rather than in urban property or trade.

The amount of individual savings accumulated annually through financial institutions in the Philippines is not large. In the year 1949, the total addition to savings and time deposits, postal savings, life insurance reserves and government pension reserves amounted to only ₱42 million. Total new security issues in the Philippines amounted to only ₱50 million. Vast sums went into investment in real property and business directly from the savings of individuals and business enterprises. Too much reliance is now placed on savings out of profits and rents, which are themselves dependent on great inequalities in income and on inflated profits. The financial basis for the development program will be strengthened by an increase in personal non-business savings.

Apart from the need to increase personal savings, it is necessary to make such savings available in far greater measure for investment in agricultural and industrial production. The difficulty that has been experienced in this respect is partly a matter of custom. The corporate form of organization, which would allow moderate participation in the risks and profits of enterprise without the need for the personal services of the investor, is not widely used in the Philippines as a means of acquiring investment funds from the general public. The Manila stock exchange lists 48 securities of which 11 are industrial, 4 commercial, 21 mining, and 12 financial. The total number of stockholders, however, is estimated at only 6,000; and the largest number for any one company is only about 2,800.

Securities are not generally regarded as an acceptable form of investment in the Philippines. So far, the Government has not been able to establish a true market for its own securities. A surprisingly small part of the bonded indebtedness is held by private investors and insurance companies. The holdings of the banks are in large part simply the investment of their required reserves up to 5 percent of their deposits, a means of holding reserves which provides interest income without tying up disposable resources. Even domestic banks do not invest their excess reserves in Government securities, preferring to hold the funds idle rather than to purchase securities which are not easily marketable.

Table 34. Holders of Bonded Domestic Debt of the Philippine Government December 31, 1949

Holder	Million Pesos	Percent of total domestic bonded debt
Bonded Domestic Debt	129.4	100.0
Rehabilitation Finance Corporation	6.6	5.1
Philippine National Bank	12.1	9.3
Central Bank of the Philippines	92.2	71.3
Inter-Sinking Fund Holdings & Special Government Trust Funds	1.1	0.8
Other Government Entities	4.0	3.1
Banks	10.7	8.3
Insurance Companies	1.7	1.3
Private Persons, Associations or Corporations	.6	0.5
Various Coupon Bondholders	.4	0.3

Source: Securities Market Department, Central Bank

There are several reasons for the failure to develop an active market in Government securities. First, there is little confidence that the Treasury will be in a sufficiently strong position to meet all maturing obligations promptly. Second, there is inadequate confidence in the stability of the currency and hence in the long-term interest rate. Third, there is no assurance that holdings can be liquidated promptly when necessary. If a government bond market is to be established, the policies of the Government must be conducive to creating confidence in its financial position and the Treasury should provide a number of attractive securities, designed to meet the needs of private holders, institutional investors, and banks. These should include the following types of security, some of which are already available:

(a) Small denomination savings bonds, with a very good coupon rate, available only to private persons, of which total holdings by an individual could be limited. The bonds should be cashable at par at any time after six months.

(b) Treasury bills sold at a discount, designed as an investment for excess reserves of commercial banks. The bills should be for maturities of less than a year, and be acceptable for advances from the Central Bank.

(c) Treasury notes for periods of one to five years at a rate of interest attractive to banks for their investment funds and to insurance companies for funds which they are not prepared to put into longer period investment.

(d) Treasury bonds, with maturity of more than five years, paying a good coupon rate so that they are an attractive alternative for investment by in-

surance companies, some business corporations, and individuals in need of liquidity and diversification in their investments.

(e) Tax anticipation notes at a moderate interest rate, with a maturity of 18 months, receivable for taxes at any time, at par and accrued interest, and payable in cash on demand after three months at par and accrued interest.

The Mission has explored the prospects for such securities. The general feeling is that a market for Government securities is needed, that it would be extremely helpful to the financial institutions and the general public, and that such a market can be developed. All are agreed that the fundamental basis for establishing such a market is complete confidence in the stability of Government finances and the liquidity of the Treasury. The ready marketability of the bonds at all times would be essential. The alternative of their use as collateral for bank loans and, in the case of banks, for advances from the Central Bank must be assured.

It should not be assumed that the opening of a government bond market means that large sums can be raised for the development program in this way. Any attempt to force the bonds beyond the ready and certain absorptive capacity of the market would have a detrimental effect. The market must be sure of strength and stability, and that will be possible only if the new issues are moderate in amount and properly timed. Close consultation of the Treasury, the Central Bank, and the financial institutions is necessary for this.

If economic development is to be on an adequate scale, domestic savings will have to be supplemented with financial resources from abroad. American investors have long been prominent in the large industrial and agricultural enterprises of the country. A very considerable part of the postwar reconstruction was undertaken by foreign investors. There is no doubt that many American firms have found investment in the Philippines profitable and some wish to extend their investment. The Philippine Government has stated publicly that its basic policy is to attract private foreign capital to assist in development.

The major obstacles to securing larger foreign investment have only recently emerged. There is a widespread fear of discrimination, despite the provisions of the Agreement for parity treatment for United States citizens and companies. In too many instances, particularly in connection with import controls, restrictions have been placed on foreign firms which can have no economic justification. A second obstacle to foreign investment is the existence of exchange controls. There is a fear that if capital is committed for investment in the country, it may be difficult to secure the remittance of profits and the amortization of investment. A clear-cut and consistent policy on the part of the Central Bank would be especially helpful in dispelling this fear. A third obstacle to foreign investment is political and financial uncertainty. Peace and order must be restored and the destructive elements that do not wish to see political and economic progress must be eradicated. At the same time, the Government has the duty to deal promptly with the economic ills of the country and to eliminate the widespread discontent from which dissidents obtain their strength.

Any foreign investment from private sources would be primarily in direct investment of rather large-scale business. At best, it is not likely to amount to very much in the near future. Nor is there any prospect of securing from private sources the supplementary funds that will be necessary to finance the foreign exchange and local requirements for a satisfactory program of agricultural and industrial development. Under

present economic and political conditions, supplementary financial resources from abroad will be available on a significant scale only if they are provided by the United States Government.

The availability of financial resources for development must be complemented by the provision of facilities to assure use of these resources in agricultural and industrial development. It should not be assumed that the Philippine Government will have to provide finance for every worthwhile investment project. The greater part of the investment in the Philippines will continue to be made by successful business undertakings, financed either from their own resources or from credit to which they have access. It is only in special cases that the help of the Philippine Government will be needed. Such special needs can be taken care of through the proposed Philippine Development Corporation. For agriculture, this would be done through the Rural Banks; for industry, this would be done through the provision of industrial finance in cooperation with existing banking institutions.

Credit policy

The banking system of the Philippines was developed originally to serve the needs of large importers and exporters, and this sector of the economy is well supplied with credit. The use of banks to serve domestic needs has had a slow growth, however, and these needs are still inadequately served. In Manila and in a few cities such as Cebu and Iloilo, satisfactory banking facilities appear to be available. In most provincial areas, however, banking facilities are either inadequate or non-existent. Farmers and small businessmen are forced to rely on caciques, and private money lenders and storekeepers who extract such heavy toll as to leave producers and small traders either with accumulating debt or with too small a surplus to permit expansion of their production and business.

Some of the Manila banks have given consideration to the opening of branches in all of the larger cities. Their decision not to open branches where banking facilities do not now exist may be accepted as an indication that such branches would not be sufficiently profitable at this time or that other obstacles appear to be too great. The country is still predominantly one in which business is done by currency rather than check and it may not be possible to attract deposits sufficient to permit a bank to pay its way. But even if the preference for doing business through banks rather than with currency should grow slowly, it will be a very long time before the necessary banking facilities in small communities will be profitable. Nor is the loan business that might be done in rural communities of a type attractive to urban banks accustomed to lend predominantly on the basis of security in the form of land and real property.

Even if the operation of branch banks supervised by head offices in Manila cannot be made profitable, it may be that with sufficient encouragement small independent banks with modest capital provided locally would be able to operate at low cost and pay their way. If Rural Banks are established to provide agricultural credit, it might be possible to provide credit for moderate sums to small merchants and to other local business enterprises through the same facilities. The banking authorities of the Philippines should give consideration to the steps that should be taken to develop adequate credit facilities in smaller communities to meet the special needs of local enterprise.

While the problem of credit facilities is most acute in provincial cities and rural regions, there is apparently some difficulty in securing credit for smaller business enterprises even in Manila and the larger cities.

The difficulties arise in part out of inadequate private capital, in part out of the absence of good financial standards in business and of reliable financial statements, in part out of the failure of many small businessmen to recognize the necessity of meeting bank obligations promptly at maturity, and in part out of banking practices. Outstanding foreign and domestic companies can borrow on their financial statements and some companies both large and small can borrow on trust receipts covering inventories and receivables. In general, however, credit is granted on the basis of collateral, chiefly real estate.

If the development of the Philippine economy through small and moderate sized enterprises is to be encouraged, improvement in the present credit facilities is necessary. The proposed Philippine Development Corporation could be used to provide partial guarantees for some types of business loans through commercial banks. By making commitments to provide up to 80 percent of the amount of a guaranteed loan, the risks of development loans made by the banks can be shared in very large part by the Corporation. This device would avoid straining the resources of the banks in connection with development loans, and it would assure greater care in the extension and servicing of loans financed by the Corporation. The Corporation would charge a small fee for its commitment when the bank itself provides the loan funds for a joint undertaking; and the Corporation would charge the regular rate of interest less a service fee to the bank for that part of the loan funds which the Corporation provides.

If the extension of banking facilities were to result in a large expansion in the amount of bank credit, it might be difficult to prevent inflation. It is all the more urgent, therefore, that the Central Bank be in a position to influence credit developments to a significant degree. The present law gives the Central Bank broad directives for the establishment of credit policy, large powers to make its policy effective, and wide latitude in the use of these powers. In practice, however, the Central Bank is certain to be hampered in the discharge of its responsibilities by prior decisions made by the Government, unless coordination of fiscal and investment policy with credit needs is achieved.

In the last analysis, the only real limitation on the excessive creation of credit is the self-restraint of the Government in incurring a budget deficit and in undertaking investment outlay directly or through government corporations. Sound monetary and banking policy must be built on a sound fiscal and investment policy. While skillful Central Bank management can minimize to some extent the harm done by unwise fiscal and investment policies, it cannot prevent the consequences of irresponsible government finance. The Central Bank needs an effective and timely voice in credit policy in order to assure an early consideration of the economic effects of every aspect of the finances of the country.

Coordination of financial policy

There has been a tendency to believe that the Philippine monetary and banking system can provide large resources for development. This is not the opinion of the private bankers or the officials of the Central Bank. The creation of the Central Bank was intended to provide a greater degree of freedom in managing the monetary system of the Philippines than was possible under the dollar exchange standard. This was wholly desirable. But it would be unfortunate if this necessary change in the Philippine monetary system were to become the occasion for reckless fiscal, credit, and investment policies.

While the new monetary system provides more flexibility in monetary policy, it would be a mistake to assume that the monetary authorities have unlimited capacity to create credit. Under the dollar exchange standard, the money supply varied with the balance of payments except as the commercial banks held excess reserves (including dollar balances abroad) which could absorb an inflow or outflow of dollars by offsetting credit operations. With the Central Bank such absorption of the effects of balance of payment surpluses or deficits, without a corresponding alteration of the money supply, can continue longer and involve larger amounts than formerly. But the Central Bank cannot continue indefinitely to offset the effects of a balance of payments deficit without threatening the reserve and the payment position of the country.

There is little danger that an excessive expansion of credit will be initiated by the private banking system. The private banks have been conservative in their lending policies and some of them follow the practice of holding large excess reserves. There is a possibility, however, of excessive expansion of credit by the government-controlled Philippine National Bank. In the past the Government has used its control of this institution to compel extension of loans which subsequent events have shown to be unwise and uneconomic, and which would not have been made by private banks. This could occur again if the Philippine National Bank were able to secure additional reserves from the Central Bank.

The present attitude of the Central Bank is not conducive to the excessive creation of bank credit for the business community. The practical danger of an excessive expansion of credit arises from the exigencies of Government. If the Government operates on a large current deficit which cannot be financed in other ways, it will in practice have to be financed by the Central Bank. The law may limit the amount of direct loans to the Government; and the Central Bank may resist making even these loans. In the end, however, the Central Bank will have to find the means to enable the Government to meet its obligations. The only practical and dependable safeguard is to avoid such an emergency by a strong fiscal policy.

Perhaps even more dangerous, because it is likely to be defended with specious reasoning, is the creation of large amounts of Central Bank credit for the Government for investment purposes. The government has already invested excessively through the various government corporations. So long as they do business they will press for more funds to extend their activities. The emphasis on development will provide an atmosphere in which it will be easy to assume that somehow an expansion of credit for investment is not inflationary. And as this credit will not be available from the private banking system, there will be great pressure to secure it from the Central Bank either directly or through the Philippine National Bank.

Decisions with respect to Government investment for development purposes are now made by the President on the advice of the National Economic Council. This Council is composed of most of the heads of Government departments and agencies with the President of the Republic as chairman. Four members of the Monetary Board are members of the National Economic Council. The law lays down the conditions under which the Central Bank may make or decline to make available the funds recommended for investment by the National Economic Council. In practice, however, the Central Bank cannot finally refuse to provide the funds allocated, for this would in effect be a veto of the decision of the President of the Republic taken on the advice of his Economic Council by a Monetary Board appointed by him.

The need for caution in fiscal, investment and credit policy is urgent in the Philippines. The Government can meet its responsibility through a

fiscal policy that will not burden the Central Bank with the need to provide emergency finance for the budget or investment finance for development. Freed from the threat of excessive credit creation for the Government, the Central Bank will be in a better position to establish credit policies conducive to the promotion of the long run progress and well-being of the Philippine people. The proper agency for co-ordinating financial policies in all fields is the Monetary Board. Its members include the Secretary of Finance and also the Governor of the Central Bank. Moreover, the members of the Monetary Board are included in the National Economic Council. They have, therefore, the opportunity of seeing the over-all effect of fiscal, credit, and investment policies.

Recommendations

1. Prompt action should be taken to balance the budget by raising additional tax revenues. The new taxes will enable the Government to correct the inequities in the present tax system which bear too heavily on the low income groups and are not sufficiently related to ability to pay. In the longer run, a simplification of the tax structure is necessary for greater efficiency in tax collection.

2. A new tax program should be adopted to raise ₱150 million in additional revenues in a full fiscal year. This program includes higher personal and corporate income taxes, higher excise taxes on luxuries and non-essentials, and property taxes. To permit balancing receipts and expenditures in the calendar year 1951, an emergency tax that will reduce the demand for imports is proposed to remain in force for a period not exceeding two years.

3. Steps should be taken to encourage larger personal savings. This is necessary to permit financing of agricultural and industrial development without inducing inflation. Basically, this is a long run problem involving successful development of financial and economic reforms enumerated elsewhere in the report. The establishment of a Government bond market would be helpful in mobilizing savings for development. This requires creating confidence in the financial strength and liquidity of the Treasury and the availability of securities attractive to all classes of investors.

4. Foreign investment should be encouraged to supplement domestic savings to finance an adequate development program. Private foreign investment is discouraged by the fear of arbitrary treatment and by political and economic uncertainties. A clear-cut policy on remittance of current earnings would dispel some of these fears, but strong measures must also be taken to restore peace and order. Even under favorable conditions, adequate resources from abroad could probably come only with assistance of the United States Government.

5. While the banking system cannot provide large resources for development, the private banks should explore the possibilities of expanding banking facilities, providing more credit in provincial areas, and should cooperate with the Philippine Development Corporation in administering credit to small and moderate-size industrial enterprises. The greater role of the banking system in providing credit requires great care to be exercised by the Central Bank in limiting the creation of credit. Steps should be taken to reduce the Government's control over the commercial banking activities of the Philippine National Bank in order to lessen the risk of credit inflation.

6. Fiscal, investment and credit policy should be co-ordinated to prevent inflation. The practical danger of excessive credit creation arises from Government finance, for current expenditures and for investment. The proper agency for co-ordinating financial policies in all fields is the Monetary Board whose members include the Secretary of Finance and the Governor of the Central Bank.

XII. COMMERCIAL AND EXCHANGE POLICY

The development of Philippine foreign trade will be largely determined by the expansion of agricultural and industrial production, world market conditions and the price relationships between Philippine and foreign products. For years to come the principal exports will continue to be agricultural and mineral products, and the principal imports manufactured and semi-manufactured products. Price relationships with respect to export industries will be of increasing importance as the Philippines faces greater competition in the United States and other markets.

Commercial policy

Under the Philippine Trade Act absolute quotas are imposed by the United States on imports from the Philippines of sugar, coconut oil, cordage, rice, cigars, scrap and filler tobacco, and pearl buttons. On sugar, cordage and rice, duties are to be assessed from 1954 at gradually increasing percentages of the duty rates. For cigars, scrap and filler tobacco, coconut oil, and pearl buttons, duty-free quotas are provided within the absolute quota, the amounts of the duty-free portions to decline each year by five percent beginning in 1954.

Of the total United States imports from the Philippines in 1949, approximately 32 percent were items coming under United States quotas, principally raw sugar and coconut oil; 44 percent were non-quota items entering the United States duty-free, principally copra and abaca; and 19 percent were non-quota items but dutiable beginning in 1954 at gradually increasing rates of duty, principally desiccated coconut, embroideries, and canned pineapple.

For quota products subject to gradually increasing duty rates after 1954, the quotas and duties themselves will probably not be the major factors limiting export of these products in the next decade, except in the case of sugar. Exports of other items subject to absolute quotas have been far below the quota limits and even before the war the quotas were liberal considering Philippine production and United States market needs. Cordage exports will be more affected by factors other than the quota and duty, chief of which is the competition from cordage produced in the United States from imported duty-free fibers, including abaca, and from steel cable. Rice is not likely to be exported to the United States in large quantities.

Of those products for which there will be declining amounts of duty-free quotas after 1954, the part of imports subject to duty may have difficulty in competing in the United States market. The demand for Philippine cigars is held down by their high price relative to inexpensive machine-made cigars in the United States and the demand for Philippine scrap and filler tobacco is dependent upon increased production of cheap cigars in the United States, at present an unlikely development. The pearl button trade is relatively small and has been affected by increasing competition from plastic buttons.

The total production of coconut oil in the Philippines is still far below the absolute quota. Even assuming that duty-free quotas of coconut oil may be exceeded, the assessment of the duty at the rate now in effect would probably have little effect on Philippine exports. Philippine coconut oil mills are more concerned about eliminating the processing tax on Philippine coconut oil while retaining the tax preference of two cents per pound in favor of the Philippines. Even without the tax, Philippine prices would probably have to be reduced considerably in order to increase consumption in the United States. Coconut oil is not likely to be consumed to the same proportionate extent as before the war, when alternative materials had not yet come into wide use.

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Of the Philippine commodities not subject to quota, many are raw materials which enter the United States free of duty, including copra, fibers, certain types of lumber and timber, base metals, gums and resins. Among non-quota commodities which will be subject to gradually increasing duties are cotton embroideries, canned pineapple and desiccated coconut, exports of which may be hindered by the duties toward the end of the twenty-year period, but which may also be sustained by strong demand in the United States and lowered costs in the Philippines.

The export position of the Philippines will remain vulnerable so long as exports are concentrated on the United States where a large portion enters under temporarily preferred conditions. In this respect, there has been no significant improvement from prewar. Exports of the United States in 1949 and in 1950 were still nearly 80 percent of total exports. More attention should be paid to developing trade with other countries than the United States. It seems inevitable that there should be considerable expansion of Philippine exports to Japan of products such as abaca, iron ore, lumber and timber, and coconut products, and imports from Japan of such goods as textiles, iron and steel products, boats and fishing equipment.

The chief factors which will affect imports are availability of foreign exchange and allocations among various types of goods. The imposition of import controls has radically changed the previous situation when American goods entered free of duty and without restrictions. If present policies are continued there will undoubtedly be a continued decline in imports of luxury and non-essential items in favor of essential consumer goods and capital equipment. Domestic production of items such as soap, shoes, and textile products, and various foods will also alter the pattern of imports. The development program, if properly conceived, will place great emphasis on the production of just such goods which the Philippines can produce economically to replace imports.

The Philippine Government should undertake more vigorous promotion of its exports in all parts of the world. This should be done by foreign market surveys, use of Philippine foreign service offices abroad, and standardization and grading of products. The Government should establish a few well-trained commercial attaches in strategic centers of world commerce and in promising markets for Philippine exports, such as London, Brussels, Madrid, New York, Chicago, and San Francisco.

The principal international agreements that will affect Philippine foreign trade are the Trade Agreement with the United States, the proposed Treaty of Commerce, Friendship and Navigation with the United States, and trade and payments arrangements that may be made with other countries. The Philippine Government should encourage its trade through commercial treaties with Europe and America and neighboring countries in the Far East and by participation in multilateral agreements on trade. Trade with Japan through SCAP is now being implemented by arrangments under which ₱50 million of exports will be bartered for a like amount of imports in the twelve months ending in June 1951. Wherever possible, the Philippine Government should continue to follow a policy of multilateral trade. Bilateral trade and payments arrangements will put the Government even more directly into the field of commercial operations and add to the difficulty of expanding trade on a commercial basis.

The Philippine Trade Act of 1946 was probably the best compromise that could have been reached at the time. The provision for an eight-year period of free trade between the United States and the Philippines and a twenty-year period of declining preferences beginning in 1954 has met with

little criticism. The Philippine Government desired a much longer free trade period and recently there have been suggestions that the Philippines should press for an extension of this period. The Philippines was granted what it most desired at the time, a preferred position in the United States market for a period of 28 years; and the United States in turn was able to protect the position of American interests in the Philippines as well as certain interests at home.

The principal Philippine objections to the Trade Agreement have been to the provisions which limit the Government's power to allocate exports of "quota" products, and to the so-called "parity provision" guaranteeing national treatment for United States citizens and business enterprises in the development of natural resources. The absolute quotas on Philippine exports are regarded as limiting opportunities for expanding Philippine trade with the United States as Philippine production grows and the United States market expands. There has also been some feeling that the exchange provisions are a limitation on Philippine sovereign rights.

Some provisions of the Trade Agreement, such as the absolute quotas (except in the case of sugar) and the internal tax preference given Philippine coconut oil, are prejudicial to the attainment of the objectives of United States commercial policy on a multilateral basis. These provisions of the Act which limit Philippine sovereign prerogatives, i.e., the "parity provision," the "non-discrimination" provision, and the limitations on the Philippine Government in allocating quotas established for certain products, do not in practice provide the proper type and degree of protection for American interests.

It is essential that a Treaty of Friendship, Commerce and Navigation be concluded between the United States and the Philippines at the earliest possible date. Such a treaty would establish basic reciprocal rights and a clearly defined long-term legal basis for commercial relations between the two countries. It would also serve to define the climate for private investment by giving definite assurance of equitable treatment and security for American investors. The Trade Agreement of 1946 does not cover much of the more vital ground that should be contained in such a treaty. The conclusion of such a treaty would make unnecessary some of the provisions of the present Trade Agreement.

Exchange policy

The objectives of the Philippine Government on international payments and on exchange policy are already embodied in the principles of the International Monetary Fund of which the Philippines is a member. These objectives are to maintain the stability of the peso and complete freedom to make payments and to transfer funds for all current transactions. It will not be possible in the near future for the Philippines to permit the free flow of capital abroad. Exchange controls will have to be continued for this purpose, although such controls should not be used to prevent the transfer of all current earnings and the repatriation of foreign capital at a moderate rate.

In a fundamental sense, the exchange policy of the Philippines will ultimately be determined by its international payments position. The Philippines have no reason to desire to see the exchange rate for the peso changed except in the most critical circumstances. Nor can the Philippine people wish to have the convertibility of pesos into dollars restricted except when the greatest national interest requires such action. The best way of avoiding such controls is to give strength and stability to the international payments of the Philippines.

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The international economic position of the Philippines has been weakened on the export side by the effects of war destruction which are only now beginning to be overcome. It has been weakened on the import side by the abnormal postwar demand for imports. The real international economic position of the country will not be materially improved in the next few years unless a great effort is made to expand home production. That is why the development policy of the Philippines must include a special effort to increase export production, to open new export markets for Philippine products, and to increase home production of goods that will replace imports.

The balance of payments is determined not only by these real economic factors, but also by the monetary conditions under which the economy must operate. If the objectives of exchange policy are to be attained, a basically strong economy must not be undermined by unsound fiscal and credit policies. If prices and costs are allowed to rise, home production of export goods and the competitive position of exports in foreign markets will be impaired. If home prices and costs are too high, they will encourage excessive imports. If national income is too high relative to production it will involve too much aggregate expenditure, taking away goods from exports and inducing more imports.

The effects of fiscal and credit policy on the balance of payments are especially important during a period of development. At such a time, import needs are unusually large for machinery, equipment and materials going into development projects; and time must elapse before the results of development can be seen in greater exports and reduced imports. If the fiscal and credit policies of the country are conducive to an excessive expansion of expenditure, the pressure on international payments can be exceptionally great. This is the common experience of countries that have been engaged in large development programs.

The import and exchange controls have succeeded in keeping payments in check; but the time is opportune for reducing reliance on controls. One of the reasons for the excessive demand for imports is the high level of national income and home prices relative to the United States. With the large expansion of peso income, even the same proportion of aggregate expenditure devoted to import goods must involve an enormous increase in the volume of imports and in foreign payments. A rise in the cost of imports relative to national income and home prices would induce a reduction in the present demand for imports.

Ordinarily, when a large change is necessary in the relation of home prices to foreign prices, the best way of bringing this about is through a depreciation of the exchange rate. In the conditions that prevail in the Philippines, this is not desirable. It would have the effect of raising unduly the prices of all export goods and of home goods produced with the same resources. The profitability of export production is now so great that a further rise in export prices would have almost no effect in increasing their production. Depreciation would inflate still further the income of exporters; it would raise the prices of all agricultural products for home consumption. While depreciation would limit the demand for imports, it would at the same time reduce unnecessarily the real income of low income groups.

A rise in import prices relative to home prices could be brought about, however, without these adverse effects of inflating the incomes of exporters and reducing the real income of the poor. The simplest way to do this would be through a special emergency import levy of 25 percent, if this can be done under Section 314 of the Philippine Trade Act. The special emergency levy should be imposed for a period not to exceed two years on all imports

except rice, corn, flour, canned milk, canned fish, and fertilizer. In conjunction with other measures to be taken to increase tax revenues and to limit the creation of credit, such a special import levy would reduce substantially the demand for import goods. It would have almost no effect on the prices of home produced agricultural goods and only a limited effect on consumers' prices of import goods. The fact is that restrictions have already reduced sharply the supply of import goods, and in a free price economy the prices paid by consumers will rise to the level determined by the limited supply. The principal effect of the special import levy will be to transfer from importers to the Government much of the windfall profits resulting from the limitation on the volume of imports. The special import levy would wipe out the flood of new importers primarily concerned to secure the windfall profits associated with import controls. It would permit a great deal more flexibility and some relaxation in the restrictiveness of import controls. Its contribution to more efficient and more honest administration of import controls would be incalculable.

If such a special emergency import levy cannot be imposed because of the legal limitations of the Trade Agreement with the United States, it would be desirable to find other means of reducing the excess demand for imports without too much reliance on import controls. Very heavy excise taxes, particularly on luxury imports, would be one alternative. While it would not be as effective as the special emergency import levy in reducing the demand for all import goods, it would act strongly on one segment of import goods and through the revenue collections indirectly effect the demand for all goods. Another alternative would be a tax of 25 percent on all foreign exchange remittances. Such a tax would have much the same effect as the special import levy. It might be regarded, however, as indicating imminent depreciation, and it could lead to serious speculation in exchange and in commodities.

Modifications of policy

Even with a special emergency import levy, the use of import and exchange controls cannot be eliminated in the near future. With the special import levy, it should be possible, however, to simplify the controls and permit greater flexibility in administration. For this purpose it would be desirable to amend the import control law to establish four categories of imports, classified according to the degree of essentiality. The import control board should be given the power to impose whatever restrictions are necessary to limit imports in each category. Licenses could be issued to recognized importers to cover their requirements over a period of three months. As the licenses will not refer to specific goods, but to categories of goods, applications could be processed relatively quickly and allocation of import licenses freed from favoritism and corruption.

The Philippine Government will find it necessary to direct its commercial policy to meet the needs for development and to strengthen trade relations with other countries. The present TradeAgreement sets the terms that will govern the trade relations between the United States and the Philippine Republic for the next twenty-four years. The Act under which the Agreement was made was passed more than four years ago. Conditions have changed very radically since then, new problems have emerged and new policies have become necessary to deal with them. It would be desirable to have a joint United States-Philippine Commission study the need for modifications of the Trade Agreement to cover the trade relations between the two countries after the conclusion of a Tready of Friendship, Commerce and Navigation. Such an agreement could also provide equitable conditions

for investment of American capital with assurance that earnings can be transferred and the repatriation of capital permitted.

One provision of the present Trade Agreement requires that no change in the par value of the peso shall be made by the Philippine Government without the approval of the President of the United States. Such a provision is not necessary to safeguard the interests of the United States. As a member of the International Monetary Fund, the Philippine Government cannot change the par value of the peso until it has consulted with the Fund, and for any change in excess of 10 percent of the present par value, unless it has the concurrence of the Fund. This provision for considering any proposal for a change in the par value of the peso by an international organization provides adequate protection for the interests of the United States in the stability of the Philippine currency.

In practice, the present provision does not offer assurance against the imposition of an undesirable exchange policy. The need for exchange control or for a change in the par value of the peso may result from domestic policies. The President of the United States has no responsibility for the fiscal, credit and investment policies that may necessitate such action. For this reason, he ought not to be burdened with the responsibility of giving formal approval for exchange controls or changes in exchange rates if they should be needed. By the time such approval is requested, the situation has become critical, and it could not be withheld without doing irreparable damage to the country.

In no other economic field are the interests of the United States and the Philippines so clearly the same as in commercial and exchange policy. No reasonable person, either in the Philippines or in the United States, can wish to shatter the close, friendly, and beneficial trade and financial relations that exist between the two countries. This is all the more reason why any agreement on commercial and exchange relationships should take into account the changing circumstances in which they must be put into effect and should recognize that rights and obligations must be fairly balanced and accepted in a spirit of mutuality.

Recommendations

1. The Philippine Government should undertake more vigorous promotion of its exports in all parts of the world. This will reduce the present abnormal dependence on trade with the United States. As far as possible, the policy should be to encourage multilateral trade rather than bilateral trade and payments arrangements.

2. To reduce the present excessive demand for imports, which is in part due to the high level of national income and home prices relative to those of the United States, a special emergency import levy of 25 percent should be imposed on all imports except a limited number of the most essential goods. This special levy would be for a period not to exceed two years and would be co-ordinated with a new trade agreement to be negotiated with the United States. If such a special levy is not possible because of legal limitations, it would be desirable to secure some reduction in the demand for imports by heavy excise taxes on luxury imports, or through a tax on exchange remittances, although such a measure could lead to serious speculation.

3. The import and exchange controls should be simplified and the administration made more flexible. Import licenses should be issued for categories of goods rather than specific items, and should cover requirements for a

three-month period. Exchange controls should be gradually relaxed to permit the transfer of all current earnings and moderate repatriation of capital.

4. A Treaty of Friendship, Commerce and Navigation, which would also provide equitable conditions for investment, should be negotiated between the United States and the Philippines. Thereafter, a Joint Commission should be appointed to study the need for modifications of the present Trade Agreement to take account of the new conditions and to provide for trade relations in conformity with international agreements on trade and exchange policy to which both countries have subscribed.

XIII. LABOR, HEALTH AND EDUCATION

The economic development of the Philippines requires the better utilization of the human resources as well as natural resources and equipment. A healthy, literate, and well-trained people will not only be able to produce more; they will be capable of using the increase in production to provide a more satisfactory standard of living. Any substantial improvement in the economic condition of the Philippine people must depend upon increased production and greater productive efficiency. Some steps can be taken now, however, to secure a more equitable distribution of income.

Health and education

The public health service of the Philippines had been carefully built up during the period of American sovereignty. When the Philippines was liberated it was apparent that the results of 40 years of effort had been reduced to almost nothing during less than four years of Japanese occupation. Sanitation, including protection of water supplies, garbage and waste collection, and sewage disposal had deteriorated to the point of menacing the health of the population. Public health facilities such as laboratories, modern quarantine installations, and detention stations had been completely destroyed. There was serious danger of cholera, plague, smallpox and other diseases. The leprosaria had been destroyed and 5,000 lepers were at large. Malaria, tuberculosis and venereal disease had reached new highs. Malnutrition and beri-beri had become general.

The United States Public Health Service started its Philippine Rehabilitation Program in June 1946 and ended it on June 30, 1950. Great advances had been made in malaria control during the war. Techniques developed in that period were adapted to fit Philippine conditions and used to combat one of the oldest health meances of the Philippines. Similarly, the problems of tuberculosis, venereal disease, leprosy control, maternal and child health and nutrition were given attention. Laboratories were rebuilt and some 80 city and town water purification plants were re-equipped. Unfortunately, the Philippine Government has done little to continue and extend the malarial control program initiated by the United States. Continuation of the program is essential, not only for rural well-being, but for the opening of new agricultural lands.

One of the most praiseworthy characteristics of the Philippine people is their earnest desire for education. While elementary education is free and nominally compulsory for six years, in many rural areas the school facilities are inadequate and attendance requirements are not enforced. Elementary school funds come mainly from the national budget, but high schools are supported almost entirely by students' fees averaging ₱65 for the school year. School facilities are crowded, classes large, and teachers underpaid. The present minimum salary for teachers is ₱100 a month. This has led to a shortage of teachers and a lowering of standards. Since the war there has been an "annual crisis" when teachers in certain provinces have failed to receive their pay for as long as three or four months.

One of the unusual features of the postwar years has been the establishment of private schools and colleges giving courses in education and granting teachers' certificates. In addition, private colleges offering courses in law, accounting and business administration have been filled to the breaking point. The UNESCO Consultative Educational Mission in 1949 noted the indiscriminate admission of unqualified students, inferior curricula of little

value, passing of inferior students in order to continue fees, use of low-paid part-time instructors, overloading of courses to put students through quickly, and unethical rivalry among schools for student business. The offering of so-called higher education on this low-grade basis is an imposition on an education-hungry people.

The sound structure of the Philippine educational system is being undermined by this artificial distortion of the educational structure. Only five percent of all secondary school students are taking agricultural courses and an additional five percent trade or vocational courses. The number preparing for a professional career is out of all proportion to the needs of the country. Instead of being well-provided with trained workers and managers for agriculture and industry, where they can be employed, the country will soon be faced with the problem of white collar unemployment. This is a misdirection of education that must prove costly to the Philippine economy and painful to the unfortunate victims. The Department of Education should apply the same standards to private as to public schools, and the granting of degrees should be confined to institutions which maintain satisfactory college and university standards.

In part, however, the problem of improving education in the Philippines is a financial problem. At a time when the budget is seriously unbalanced and the Treasury temporarily depleted, there is a great temptation to impose short-sighted economies in the operation of the school system. This danger arises from the abnormal dependence on the national budget for school funds. There is no reason why educational standards cannot be maintained on a national basis, while the costs of education are in greater part borne by the local governments. This would not only provide more funds for education, but it would assure greater local interest and participation in the development of the school system.

Wages and living conditions

Both industry and agriculture have been very prosperous in the Philippines since the end of the war, but little of this prosperity has seeped through to the working force. With one of the highest costs of living in the world, the average daily wage rate for common labor varies in industry from ₱2.00 to ₱5.00 a day, while in agriculture hundreds of thousands work for ₱1.50 or less a day. The real wages of workers, except in Manila, are generally lower than the inadequate prewar level.

A compilation made by the Sugar Quota Office shows that minimum wage rates in sugar mills range from ₱2.00 to ₱4.00 a day in Luzon and from ₱2.00 to ₱3.00 a day in the Visayas. On the sugar plantations, the minimum wage rates range from ₱1.50 to ₱2.50 a day in Luzon and from ₱.80 to ₱1.50 in the Visayas. Apart from money wages, there are various supplements in food, shelter and services which are provided the workers. Annual earnings are far less than would be expected on the basis of daily wage rates, as agricultural employment is highly seasonal. The differences in wages and supplements reflect the local conditions in the regional labor markets and the productive efficiency of the individual establishments.

A study made by the Catholic Church in the Philippines concludes that a minimum budget for an urban industrial family of five requires an annual expenditure of ₱4,000. This should be compared with the average wage of ₱7.60 a day for skilled workers and ₱4.90 a day for unskilled workers in Manila, and a substantially lower wage in provincial cities. It is not at present possible for heads of families to earn enough to meet this minimum

budget. The economy of the Philippines is based on family employment--with two or more jobs to a household. There is no good reason, however, why wages for an adult male worker should be very much less than half of the amount needed for a minimum family budget.

American firms in the Philippines pay substantially above the going rates paid by Philippine management, but only two or three percent of the total workers are employed by American firms. Under present conditions, the higher wage rates of American firms offer little economic pressure on Philippine enterprises to raise their wage rates. Many American firms could afford to pay higher wages, but point to the disparity of their present scales as compared with those of Philippine firms.

The first step in ameliorating the economic position of workers is the prompt enactment of minimum wage legislation. The minimum wage in agriculture should be at least ₱2.00 a day, and probably even ₱2.50 could be justified under present economic conditions. As the purpose of the minimum wage is to improve the living conditions of low-paid workers, this legislation should not become the occasion for reducing the supplements to income which agricultural workers now have. In non-agricultural employment, the minimum wage should be far higher than in agriculture because of the different conditions under which workers must live; and for this reason it should be higher in Manila than in provincial cities. The minimum wage should be within the economic capacity of employers as indicated by the wage rates now paid by efficient employers.

Minimum wage legislation in itself will not solve the problem of inadequate wages; it will provide some relief only for the poorest paid workers. Skilled industrial workers are also in need of higher wage scales. In terms of real wages, the latter have not been able to maintain their prewar status relative to the unskilled worker. To improve their condition, they are dependent upon the power of collective bargaining and enlightenment of management which in the present economic structure leaves them in a weak position.

Industrial relations

The trade union movement in the Philippines is still confused, haphazard, and chaotic. There is only the beginning of a free trade union movement, not subject to domination by the government, interference by management, or racketeering by labor leaders. This struggling but honest movement should be given all encouragement possible, as it offers the one hope that management and labor will work together through trade unions free from Communist domination.

One of the most vicious of the labor rackets is that involving stevedoring in Manila and other ports. In Manila, the stevedoring companies make all payments for workers to the Capataz, who represents the union. The Capataz deducts a substantial amount for himself and divides what is left among the men in his gang. The Capataz further enriches himself by collecting for 15 to 25 percent more workers than there are in his gang. Of the amount paid out by the employer for stevedore labor, little more than one-half may go to the workers.

The result of this system is not only to deprive the worker of his legitimate earnings but to increase the cost of stevedoring. This came sharply to light when the United States Army recently cut costs in half by requiring the stevedoring company to pay wages directly to the workers. The fact that the men received their full wages made the jobs much more desirable and increased labor efficiency. The United States Navy is reported

about to take similar action. Commercial shippers are attempting to test the legality of the Capataz system in the Court of Industrial Relations.

Another vicious practice is that which permits unscrupulous labor leaders to come before the Court of Industrial Relations with a power of attorney from the members allowing the labor leader to retain as legal fees 30 percent or more of retroactive wage awards. The power of the labor leader, acting both as head of the union and attorney for the union, makes it possible for him to direct much of the wage award to himself without the rank and file daring to protest these extortionate fees for "legal services." The judges of the Court of Industrial Relations are frank to admit the injustice of this set up, but they contend that they are legally powerless to change it.

The development of a strong, free trade union movement can do much to oust the racketeers from their power in labor organizations and assure confidence of workers in a democratic labor movement. Legislation should make mandatory direct payment of wages and wage awards to the workers rather than through an intermediary so that they can be assured of receiving all that they actually earn.

Even among sincere trade unionists there is a lack of experience in organizing free trade unions and in responsible collective bargaining. A good means of developing responsibility and of eliminating Communist influence in Philippine labor organizations would be to have a small group of capable American trade unionists to help and advise Philippine trade unions. Such a group should consist of three men, representing the AFL, CIO and Railroad Brotherhoods.

Trade unions in the Philippines have failed to assume any responsibility for training their members, and the whole concept of apprenticeship seems unknown. There is now a shortage of skilled craftsmen in some occupations and it is difficult to see how industrialization of the country can be increased very much without a larger supply of skilled workers. Almost all training of workers takes place on the job on a hit or miss basis. Under government sponsorship, the unions in cooperation with management should develop an apprenticeship program to provide industry with skilled workers. This would be a helpful supplement to the training provided in vocational schools. The proposed American trade union group could be of great technical assistance in setting up an apprenticeship program.

Court of Industrial Relations

Industrial relations in the Philippines are almost entirely under the control of the Court of Industrial Relations established in 1936. Unlike its nearest American counterpart, the National Labor Relations Board, the powers of the Court of Industrial Relations in conducting hearings and handing down decisions are not limited by acts of Congress. The Court is given a sweeping grant of authority by Section 1 of Commonwealth Act 103, as amended which provides that the court "shall have jurisdiction over the entire Philippines to consider, investigate, decide, and settle all questions, matters, controversies or disputes arising between and/or affecting employers and employees or laborers, and landlords and tenants, or farm laborers, and regulate the relations between them...."

Industrial disputes reach the court upon certification by the Department of Labor, by the employer, or by the employees involved. The law provides that the presiding judge shall assign cases to an individual judge, who conducts the hearing and renders a decision. The Court estimates that

it takes an average of ninety days to hand down a decision, but there have been individual cases--particularly involving American firms--that have been drawn out for many months. Where appeals are taken it may take as long as two years to get a final decision. Either party dissatisfied with the decision of the judge may request a reconsideration by the entire court and the concurrence of three of the five judges is necessary for a decision. In approximately one-half of the cases, a request is made for reconsideration by the entire court.

There is entirely too much dependence on the Court of Industrial Relations as a substitute for legitimate collective bargaining. The wide discretionary powers of the Court must be curtailed in order to promote industrial harmony. Its present undefined latitude results in jockeying the Court by labor and management from one position to another. Industrial relations should be conducted within a framework of basic legislation rather than by a series of conflicting opinions handed down by five judges with no brake on their ever-changing judgments, and too often based upon the company's financial position rather than the issues involved.

Legislation is necessary to establish definite limits to the discretion of the Court. This legislation should state in clear terms the right of labor to organize without company interference and to bargain collectively on such matters as wages, working conditions and tenure of employment. This legislation should also clarify the point at which a union must be recognized as an agent for collective bargaining, and should provide for government-conducted secret-ballot elections in jurisdictional disputes to determine which union represents the workers. The procedures of the Court should be speeded up through decentralization of hearings, and through increasing its staff of examiners.

Social security

The Philippine Government must begin to assume some minimum responsibility in the field of social security. At present virtually the only legislation in this field is an obsolete statute covering workmen's compensation. This statute, which has remained unchanged for more than 20 years, provides such limited coverage and benefits that it is completely inadequate. The existing legislation excludes all workers earning over ₱42 weekly and does not apply to injuries to agricultural workers except those resulting from mechanical equipment. The law should be revised to provide adequate coverage and benefits.

The next step in social security should be the provision of relief for the needy aged and a simple system of unemployment insurance for non-agricultural workers. No one can expect the Philippine Government to undertake large financial obligations at this time in connection with social security. It should be possible, however, to begin a social security program in which the cost is largely borne by workers and employers. A commission should be appointed to propose a practical program that can be put into effect soon without adding unduly to the financial problems of the Government.

The Government provides some assistance to the unemployed through the operation of public employment agencies in Manila. This service is inadequate and its operation is confused by the division of responsibility among three different government bureaus. A well directed and adequately staffed public employment service, operating in provincial cities as well as Manila, could do much to end the exploitation by private fee-charging agencies which now dominate the labor market. The Philippine Government has a staff

trained in the United States Department of Labor capable of organizing and conducting such a service. They should be transferred from their present activities and given the responsibility for revitalizing this service.

There is one field in which positive steps can be taken to improve living conditions for the lower income groups without significant cost to the Government. In Manila and in provincial cities, the housing facilities are a menace to public health and a denial of human dignity. The large expenditures for residential construction, in some instances with the loan of public funds, have made no provision for the housing needs of the wage earner. It would be possible to provide adequate housing if investment were made on the basis of a moderate return. This is a problem of financing investment that could be given consideration by the proposed Philippine Development Corporation.

Department of Labor

Although the Department of Labor is of cabinet status, it is a small organization operating under obsolete legislation and undermanned for the work that needs to be done. What little labor and social legislation has been enacted is largely unenforced. Grouped within the Department of Labor are many but not all of the customary functions of such a government department. The present organizational structure is reasonably sound on paper. It is not, however, provided with adequate staff to carry out efficiently its minimum functions.

In an official statement, dated January 27, 1950, the Under Secretary of Labor outlined the goals of a four-year program for the Department of Labor, emphasizing improved labor standards, better industrial relations, and more assistance to workers in obtaining employment. Little, if any, action has as yet been taken that would result in translating this paper program into actuality. The Labor Department needs executive leadership, adequate staff, and the necessary funds to give reality to the proper role of Government in promoting a well-rounded labor program.

Dependable labor statistics do not exist in the Philippines. The labor statistics are insufficient, inadequate, and often inaccurate. The Census of 1948 has only been sketchily tabulated; no cost-of-living data for other than Manila exist; there are no statistics of workers by occupation or industry more recent than 1939; there are no records of wage rates for trade and service workers; and the unemployment figures are from 14 months to three years old. Responsibility for the compilation of labor statistics should be assigned to the Philippine Department of Labor, and technical assistance provided by the United States in determining the minimum economic labor data needed, how to obtain the facts, and how to keep them current.

Recommendations

1. The public health and educational needs of the country should be more adequately met. Unless the public health service is restored to a high degree of efficiency, the development of rural areas will be handicapped. The public school system should provide greater facilities for agricultural and vocational education.

2. Minimum wages should be established now for agricultural workers, and for non-agricultural workers in Manila and the provinces. These minimum wage rates should be within the economic capacity of the country and should not be higher than those now paid by efficient employers.

3. Trade unions should be encouraged that would be free from Communist influence, domination by the Government, interference by management, and racketeering by labor leaders. The Court of Industrial Relations should be guided by basic legislation on policy and its work speeded up. It should not be used as a substitute for legitimate collective bargaining.

4. The Workmen's Compensation Act should be revised to provide adequate coverage and benefits. A commission should be appointed to propose a practical program to provide relief for the needy aged and a simple system of unemployment insurance for non-agricultural workers. The public employment service should be improved and made nation-wide in scope.

5. The Labor Department should be more adequately staffed and provided the funds necessary to carry out a well-rounded labor program. The statistical service should be improved to provide the basic data needed in considering labor problems.

XIV. PUBLIC ADMINISTRATION AND TECHNICAL ASSISTANCE

The Philippine Government has had great difficulty in rebuilding its administrative system. Although it inherited a reasonably well-organized administration and a well-trained civil service when the Commonwealth was formed, the disorders caused by war have made it difficult to restore the administrative efficiency of the Commonwealth regime. A special effort must now be made to improve the public administration in order to give the people confidence in the Government. It is particularly important at this time because the economic development program will of necessity place even greater responsibility on public administration. The success of the development program may depend more on the efficiency and honesty of the public service than on any other single factor.

Reorganization of civil service

The national civil service is not in fact a large one. Of the people in the employ of the national government, about 30,000 are engaged in public administration proper. The rest are members of the armed forces and the constabulary and are engaged in teaching in the public schools. The number of persons employed to do the essential work of government may in fact be insufficient. The difficulties of efficient administration are further complicated by the fact that many of the appointments are made as political rewards, without great concern for the qualifications necessary to perform the duties. The civil service should be reorganized to assure appointments to all technical and administrative posts exclusively on merit. The present system, although designed to be based on merit, does not function in this way.

The salaries of most government employees are low in comparison with those obtainable in private employment. The consequences of this situation are extremely serious. Not only is it impossible to attract to public service many able men whose training and experience are desperately needed, but it subjects underpaid employees to a tremendous temptation to supplement their salaries from other sources. The basic solution is to provide salaries that will enable civil servants to live decently without violating the trust put in them. The present scale of salaries, as low as ₱2,400 annually in the administrative classification and as low as ₱1,140 in the clerical and maintenance classification, does not provide a decent standard of living. The starting salary in the highest administrative class of the civil service is only ₱6,000 a year, equivalent to $3,000 but with a lower purchasing power than this sum has in the United States. As soon as the tax structure has been revised and it is clear that the national budget will be approximately in balance, these salaries should be increased substantially.

One of the pressing problems in government administration is the lack of facilities for the training of subordinate employees for supervisory positions. Supervisory training courses should be inaugurated. In addition, in-service training programs, a practical job rotation plan, and encouragement of employee suggestions for the improvement of government operations would contribute materially to better administration. Qualified and competent staff assistance in the field of administrative management ought to be made available to the heads of departments and agencies in order to provide a continuing review of organization, procedure and methods of administration.

Fiscal administration

The present system of fiscal administration in the Philippines is wholly inadequate. Accountability for cash has been so thoroughly subordinated to the budgetary classification of receipts and expenditures that it precludes the prompt preparation of current reports of the cash condition of the Treasury. The fiscal advisers of the Mission have prepared recommendations for establishing better fiscal controls.

It is essential to every Secretary of the Treasury to be currently informed of the actual receipts, actual disbursements, and the cash position of the Treasury. Only in this way can emerging financial difficulties be foreseen and prompt action taken to forestall developments that would impair the public credit. Furthermore, it is a sound practice to let the public know the full state of the public finances. It is a necessary discipline for administrators, it is a desirable interest for the public. The Treasury should begin in the near future to publish on a weekly or monthly basis the actual results of its operations, showing receipts, expenditures and the cash position.

In the Bureau of Internal Revenue and the Bureau of Customs, conflicting responsibilities and overlapping functions are contributing to administrative confusion and inefficiency. This is evident from the fact that the revenue yield from existing tax laws has fallen far short of apparent potentialities and by the often expressed doubts of the general public as to the efficiency and integrity of the administration of these agencies. This situation has the effect of encouraging the widespread attitude that it is futile to vote taxes or to pay taxes; that plenty of revenue will be collected if the tax laws are enforced. The revenue collecting agencies and the general public must come to regard obedience to and enforcement of the tax laws as a public obligation of the highest order.

A reorganization of these agencies is necessary with the objective of defining clearly their duties, functions, and responsibilities. Conflicting or unrelated functions should be separated and duplication of administrative processes eliminated. Precise standards of qualification need to be established for each class of position, and appointments should be given only to the best qualified individuals without regard to representations from sponsors. No elected or appointed official of the Government should be permitted to act as representative or attorney in connection with any matter under consideration in the revenue agencies.

So large a part of the revenue of the Philippines is derived from customs and excises that thorough enforcement of these laws would probably add considerably to the tax collections. The major part of the import goods comes from the United States. It would be possible for the United States to help the Philippines in preventing evasion of these laws in connection with goods imported from the United States.

On exports from the United States to the Philippines, shippers could be required to file a declaration with the Treasury customs service certifying the American origin of the goods, the volume and value of the goods, and their right to preference under the Trade Agreement. A copy of this declaration could be sent to the Philippine Treasury. The Philippine Government could require the presentation of such a declaration as evidence of the right of imports to the preferences accorded United States goods under the Trade Agreement. On Philippine imports of cigarettes and spirits from the United States, arrangements could be made with American producers to affix Philippine revenue stamps before shipment to the Philippines. The United States Treasury should study the feasibility of such arrangements.

PUBLIC ADMINISTRATION AND TECHNICAL ASSISTANCE

Technical assistance

Even to a country which has had a much longer period of independence, the complexity of the problems faced by the Philippines would present serious difficulties of administration. In these circumstances it would seem particularly wise for the Philippine Government to draw upon the experience of the United States in undertaking a thorough reorganization of the government departments, the independent agencies and the civil service. While the ultimate responsibility for improving public administration must rest with the Philippines, the matter is one of such urgency and complexity that technical assistance from the United States appears to be indispensable.

The President of the Philippines has recognized the need for technical help in these fields. In this connection, the Mission has received the following letter from Mr. Jose Yulo, Chairman of the Philippine Economic Survey Commission:

PHILIPPINE ECONOMIC SURVEY COMMISSION
Central Bank Building
Manila

August 28, 1950

My dear Mr. Ambassador:

In line with our conversations, I discussed with the President the need of experienced technical men for the immediate implementation of fiscal policies and economic projects which must be adopted in order to stabilize government finances and strengthen the public services. It is my understanding that you had intimated to him that the United States Government might loan us the technical men that we may need. He is desirous to obtain such help and would greatly appreciate it if, in your report to President Truman, you include a recommendation that your Government extend immediate help to the Philippine Government in the way of technical assistance for all projects looking towards the stabilization of Philippine economy and the strengthening of the public services of the government.

Knowing the feeling of friendship and common interest which has always existed between our two peoples, the President is confident that with your recommendation, which he highly values, we will soon be provided with this much needed technical help, pursuant to the spirit and purposes of President Truman's Point Four Program. This will be but one of the many acts of good will which the people of the Philippines have heretofore been receiving from your good people and for which the President instructed me to express to you his reiteration of our deepest gratitude.

With kindest regards and best wishes,

Sincerely yours,

(sgd) Jose Yulo
Chairman

Hon. Daniel W. Bell
Chief, U. S. Economic Survey Mission
Manila

REPORT ON THE PHILIPPINES

This is a request that merits the immediate consideration of the United States. The Government of the Philippines is in need of technical assistance of the character requested in the letter. This need will become even more urgent as steps are taken to place the finances of the Government on an orderly basis and measures are put into effect for the development of the Philippine economy. The technical assistance needed by the Philippine Government includes the fields of public administration, agricultural and industrial development, fiscal affairs, money and foreign exchange, and social welfare.

An effective means of furnishing technical assistance on the scale required would be for the United States to send to the Philippines a Technical Mission to be available to the Philippine Government for a period of five years. It must be staffed adequately and be prepared to work directly with Philippine officials in nearly all fields of governmental activity. The members of the Technical Mission must be competent not merely to give general advice, but also to assist Philippine officials in the actual day-to-day operations and in the formulation and implementation of changes in policy which must be brought about.

The staff of the Technical Mission might be organized along the following general lines. Subject to the direction of the Chief of Mission, the responsibility for providing technical assistance and advice in various fields would be under the supervision of five coordinators.

1. Coordinator of Administrative Services: He would be responsible for the task of assisting the Philippine Government in modernizing and improving over-all governmental organization and management. The staff would include experts in government personnel and procedural problems. They would have to work closely with all other sections of the Technical Mission and particularly with the fiscal experts.

2. Coordinator of Agricultural Development: He would be responsible for assisting the Philippine Government in planning and executing programs of agricultural development. The staff would include technical experts capable of advising on the practical aspects of Philippine agricultural problems--e.g., extension service workers, agricultural researchers and agricultural chemists.

3. Coordinator of Industrial Development: He would be responsible for assisting the Philippine Government in planning and executing programs of industrial development. The staff would include engineers, analysts and industry experts capable of preparing, appraising and putting industrial projects into operation.

4. Coordinator of Finances: He would be responsible for assisting the Philippine Government in public finance, in credit policy, and in foreign exchange problems. The staff would include experts in tax administration and enforcement, fiscal management, money and banking, and foreign exchange.

5. Coordinator of Labor and Social Welfare: He would be responsible for the task of assisting the Philippine Government in connection with labor problems, social security, public health, education and related matters. The staff would include experts in these fields.

PUBLIC ADMINISTRATION AND TECHNICAL ASSISTANCE

Recommendations

1. The civil service should be placed on a merit basis and the salaries raised as soon as the budget is approximately balanced. The efficiency of the civil service should be improved by supervisory training courses, a job rotation system, and the provision of staff assistance in administrative management.

2. The fiscal administration should be modernized to establish adequate fiscal controls. Special efforts are necessary to secure efficiency and integrity in the tax collecting agencies. They should be reorganized to define clearly the duties, functions and responsibilities of the various units. The United States could help through providing declarations of exports to the Philippines and by having American producers affix Philippine revenue stamps on cigarettes and spirits exported to the Philippines.

3. A Technical Mission should be provided to help the Philippines in accordance with the request of the Government. The Technical Mission should include specialists in public administration, agriculture, industry, finance, and labor and social welfare.

XV. UNITED STATES AID

The disbursements of the United States Government and direct American aid were an important element in the recovery of the Philippine economy. The dollars that they provided financed the large flow of imports which was necessary to maintain consumption and to begin reconstruction. Because other measures were not taken to prevent the dissipation of these dollar receipts for non-essential consumption and capital outflow, the full benefits of the use of these resources were not realized in developing and diversifying production.

United States disbursements

The aggregate amount of United States Government disbursements and aid from 1945 to 1949 amounted to about $1.4 billion. Most of these disbursements cannot be regarded as aid in any real sense. While they provided dollar resources for the Philippine economy which could be used to finance imports, the greater part of these disbursements were in payment for services performed for the United States. This is clearly the case for the current expenditures of the United States Army. It is equally true of the payments made by the United States to Philippine veterans of the war.

The principal form of aid provided by the United States to the Philippines consists of the expenditures under the Philippine Rehabilitation Act. Apart from the $400 million for private war damage payments, the United States authorized the expenditure of $57 million for the reconstruction of hospitals, schools, and government buildings, $40 million for public roads, $18 million to reconstruct the port of Manila, $5 million for public health, and about $21 million for other public purposes. These expenditures were undertaken directly by United States agencies and they have been of invaluable assistance in the recovery of the Philippine economy.

The great bulk of other funds disbursed by the United States Government through payments to individuals in the Philippines have had only a limited effect in encouraging the development of the country. The payments were regarded by the recipients as income to be used in such manner as seemed preferable from their personal point of view. No doubt, the payments in dollars made possible a large flow of imports, and in that sense they have been generally beneficial to the country. They have been much less effective, however, than if an equal sum had been made available directly for investment in agricultural and industrial undertakings of special importance to the Philippine economy.

The surplus property given by the United States to the Philippines was disposed of without reference to its specific use for industries in the Philippines. Large blocks were purchased by private buyers at bargain prices and exported from the Philippines to other countries at an enormous profit. The proceeds from these transactions were in many instances converted into dollars remitted to the United States. The Philippine economy did not secure the intended increment of machinery and equipment represented by the great stock of surplus property. The ₱80 million received by the Philippine Government from the sale of surplus property went into the General Fund as miscellaneous receipts and was used to meet the ordinary expenditures of the Government.

The budgetary loan of ₱120 million from the U. S. Reconstruction Finance Corporation enabled the Philippine Government to continue a large current deficit. The inflationary effects of the policy of borrowing abroad

instead of taxing gave rise to an increase in the balance of payments deficit. It is not too much to say that the direct effect of the budgetary loan was to postpone for a year or two the pressure on the Government to levy additional taxes. So far as the economy itself was concerned, the dollars made available in this way were used to finance large imports, much of them non-essential consumption goods.

War damage payments

The private war damage payments made by the United States stand in a special position. These were payments made to private persons and corporations of Philippine or American nationality for damage or destruction to their physical property from war action. The payments of the War Damage Commission have been made on the basis of the value of destroyed property at 1941 prices adjusted for depreciation on a standard scale. On all verified claims of ₱1,000 or less, the full amount of the claim was paid. On larger claims, a payment of ₱1,000 plus 52 percent of the remainder has been made. The total amount that will have been paid out to private claimants by the end of 1950 is $390 million. The cost of administering the war damage claims and payments is only about $10 million. It was expected, and to a large extent this expectation has been fulfilled, that these payments would enable reconstruction to begin promptly.

Numerous cases have come to the attention of the Mission on large loans made by banks in the United States and in the Philippines in 1946 and 1947 to enable business enterprises to begin reconstruction in which the prospective payments from the War Damage Commission were the principal security for the loan. The fact that the United States was to make such payments gave confidence to American and Philippine banks to advance funds promptly for reconstruction. The aggregate amount of investment undertaken by the recipients of war damage compensation is certainly far larger than the amount of the war damage payments. This is borne out by the examination of a number of typical cases in which reconstruction was carried out in full with the aid of war damage payments.

A proposal is now under consideration for the appropriation of an additional $100 million by the United States. Of this sum, $25 million would be for non-profit hospitals and schools, and payments to the Philippine Government for public projects. The remainder would be used to make a further payment to private claimants, raising the total payment to claimants to 75 percent of the verified claim.

It has been urged in favor of this proposal that aid received in this form would be particularly likely to go toward the further development of the Philippine economy. The Mission believes that the war damage payments have served their purpose and that reconstruction can best be facilitated by adoption of the measures recommended in its report which provide for closer direction and coordination of the disbursement of the funds for development. Under these circumstances, if additional funds are to be made available by the United States, they should be for the general program of development rather than as additional war damage payments to individuals. This recommendation is in no sense to be construed as a criticism of the administration of the War Damage Commission. On the contrary, the War Damage Commission has been competent and effective, and it has added to the reputation of the United States for honest administration.

In practically all cases the recipients of war damage payments have been able to restore their property where this has been economically justified. While this has required the borrowing of further funds, the recipients of war

damage payments have generally been able to repay all of their borrowings and to provide for the completion of their investment out of the large profits of recent years. There have been some enterprises which were destroyed in the war which could not be profitably reconstructed. The recipients of war damage payments for such properties have been investing these funds in other enterprises and in securities. By and large, it can be said that so far as war damage payments could be used to reconstruct the Philippine economy, this has been done by now. Additional payments would involve some shifting in the accounting of investment; their effect in increasing net investment to any significant extent is questionable.

There may be claimants for war damage payments who are still in need of financial assistance for investment they wish to undertake. There is no reason why preference in development should now be given to the particular industries that suffered war damage. Nor is there any reason why further payments should be made to those who have already been given the greatest aid in reconstruction and have been able to profit from the postwar boom. In any case in which new investment is necessary for the Philippine economy, war damage claimants can and should have equal access with all others to aid in financing the new undertaking. The only test should be whether the investment will benefit the Philippine people.

Clearly, the sums paid on the small war damage claims were not and could not be used effectively for investment in production. The greater part of these small sums were used to restock the household and to maintain consumption until the recipients could resume their normal place in the economy. As with the innumerable small payments made periodically for services to the United States, the small war damage payments to nearly one million recipients, could not effectively be used for development. They were regarded as income and used for consumption expenditure. The dollars were treated by the monetary authorities like other current foreign exchange receipts and were used for imports and other foreign payments.

Settlement of claims

Any further financial aid from the United States to the Philippines should be preceded by a settlement of outstanding financial claims and the funding of maturing obligations. Such a definitive settlement is necessary to place the financial relations between the Government of the United States and the Government of the Philippines on a basis in which it is recognized that obligations must be met promptly and in full. It is an essential means of protecting the credit position of the Philippine Government from the effects of default or unilateral action.

The Philippine Government is in debt to the Reconstruction Finance Corporation for $60 million. This sum is due in two annual payments in 1952 and 1953. No provision has been made in the budget of the Philippine Government for the repayment of this loan. There is no indication that the budgetary position of the Philippine Government is likely to be sufficiently strong to make these payments in the scheduled time. The loan should be refunded on the present interest arrangements to become payable over a period of not less than ten years. The Philippine Government should issue to the U. S. Reconstruction Finance Corporation notes or other securities covering these funded obligations. The Philippine Government should include these obligations in its outstanding funded debt and should make provision in its budget for payment of interest and principal.

The Philippine Army holds peso deposits of nearly $35 million in the Philippine National Bank which revert to the United States Government under

the terms of the agreement on the use of these funds. The Philippine Government has set up counter claims that have in effect prevented the Philippine Army from carrying out the agreement with the United States on the reversion of these funds. Such a situation is detrimental to the real interest of the two governments in assuring the fulfillment of all financial obligations. The Philippine Government should withdraw the counterclaims that have been put forward against these funds and such counterclaims should be dealt with in connection with a general financial settlement of all outstanding claims between the two governments.

There are a number of financial claims between the two governments, some antedating the war, others growing out of the war. It is not desirable to have these unsettled claims hampering close financial collaboration between the two countries. A joint commission should be set up promptly to negotiate an agreement to cover the claims of each government against the other and to provide for a final settlement. The agreement should specifically state that no further financial claims will be made by either government against the other for any alleged obligations incurred prior to the date of the agreement.

New development aid

The financial aid from the United States for the development of the Philippine economy will be most helpful if it is reserved for development projects in agriculture and industry which are related to the specific needs of the Philippine economy. The aid from the United States will be more effective if the United States retains control of the funds and their use for development purposes in the Philippines. In the last analysis, the Philippine economy can benefit from United States aid only if other policies, specifically budget and credit policy, are co-ordinated to assure that dollar resources are not dissipated through inflated demand for imports and large remittances abroad.

The financial aid from the United States should be sufficient to supplement the financing of an adequate development program suited to the Philippines. The principal source of funds for development must be the savings of the Philippine people. In addition, there should be a moderate budget surplus to cover the development expenditures of the Government. This will still make it necessary to have aid from the United States to the extent of $250 million over the next five years. Part of the aid from the United States should take the form of grants for public health, education, agricultural extension, public roads, and other special projects.

The head of the United States Technical Mission to the Philippines would be authorized to release funds for grants for approved purposes. Expenditures on a grant basis would be made directly by the United States Government where construction is required. For other payments on a grant basis, funds would be released only on proof that they are properly used for the purpose for which the grant is intended. Loans from the United States would be made from time to time in moderate amount to the Philippine Development Corporation with the guarantee of the Philippine Government. The funds lent by the United States would supplement the capital of the Corporation available to finance agricultural and industrial development. The dollar receipts from grants and loans would prevent payment difficulties from arising out of the development program.

In order to avoid the dissipation of American aid, the Philippine Government would be required to maintain sound financial policies as a condition for continued aid. The Philippine Development Corporation would

not be authorized to make any loans directly to the Philippine Government. The Philippine Development Corporation would consult with the United States Technical Mission on the most effective manner in which the resources at the disposal of the Corporation can be used for development. Furthermore, the Philippine Development Corporation would offer full facilities to the United States Technical Mission to determine for itself how funds made available for development, whether supplied by the United States or out of its own resources, are in fact being used.

While the United States Government would state as a matter of policy its desire to aid in a full five-year program it would not undertake any specific financial obligation in connection with the program. The continued participation of the United States would in fact be determined from year to year and quarter to quarter on the basis of the effective use of American aid in developing the Philippine economy for the benefit of the Philippine people. The test would have to be not only the use of funds made available by the United States, but the whole range of economic policies of the Philippine Government.

Recommendations

1. Before additional aid is given to the Philippine, there should be a settlement of all outstanding claims and obligations. The Reconstruction Finance Corporation loan should be refunded and made payable over a period of ten years or longer. The funds advanced to the Philippine Army under an agreement for the reversion to the United States of the unused balance should be freed from present restrictions. All other financial claims should be covered by the final settlement.

2. Further aid from the United States should take the form of grants and loans for the development of the Philippine economy. The United States would not undertake any specific financial obligation in connection with such a program. The aid would be given from time to time on condition that the Philippine Government follows sound financial policies and the Philippine Development Corporation uses its resources wisely.

3. In keeping with the Recommendation above, no appropriation should be made for additional war damage payments by the United States. Although the war damage payments have been very helpful in facilitating reconstruction of war-damaged enterprises, additional payments would have a negligible effect in securing the development needed in agriculture and industry. Claimants who need additional financial aid for development would have access to such help through the Philippine Development Corporation.

TECHNICAL MEMORANDA

The advisers of the Economic Survey Mission to the Philippines have prepared a number of technical memoranda on various phases of the Philippine economy and public administration in the Philippines. These memoranda are being made available to the Philippine Government.

The memoranda that have been prepared are as follows:

1. Agricultural Problems
2. Bureau of Customs
3. Bureau of Internal Revenue
4. Fiscal and Administrative Operations
5. Foreign Trade
6. Industrial Development
7. Internal Distribution
8. Mining Industries
9. Taxation

—JOURNAL OF COMMERCE, N. Y., FRIDAY, NOVEMBER 17, 1950—

Full Text of US-Philippine Aid Agreement

Washington Bureau

WASHINGTON, Nov. 16. — ollowing is the full text of the al agreement signed by Presi- nt Elpidio Quirino of the Phil- ines and ECA Administrator illiam C. Foster at Baguio on v. 14 to implement the recom- ndations of the recent Bell re- rt:

President Elipidio Quirino and Honorable William C. Foster, Representative of President rry S. Truman, have agreed to ommend to their respective gov- ments a program covering the ure and form of the assistance co-operation which the G v ment of the United States uld have to extend to the Gov ment of the Philippines to as- the latter in the solution of old social and economic prob- s greatly aggravated by the last , and to bring about a new ippine era of progress and ty.

Greater Production

It is realized that the Philip s must have greater produc- a more diversified economy a higher family income for its strial and agricultural labor- all of which will greatly con- te to the enhancement of free tutions in the Philippines.

The President of the Philip- s, highly appreciative of the erred help on the part of the ident of the United States, to about social and economic being in the Philippines, an- ces his determination to lead country in the attainment of great goal, through total eco- c mobilization and the bold implementation of measures that will bring about a higher degree of social justice in the Philippines.

3. The main recommendations of the report to the President of the United States by the Economic Survey Mission to the Philippines will be the basis for serious and immediate consideration by the Philippine Government in order to attain the objectives mentioned above and may be considere da practical and sound point of departure in working out a program of social economic and technical assistance and co-operation.

Will Draft Legislation

4. To this end and considering that time is of the essence, the Council of State shall forthwith formulate a legislative program of the following measures for prompt consideration by the Congress of the Philippines.

A. Tax legislation of an equitable nature designed to balance the budget and build up a surplus to gradually eliminate previous deficits and at the same time to help in counteracting inflationary trends. It is estimated that, in order to be able to take advantage fully of U. S. aid it will be necessary to fix as an intermediate goal a total of not less than 565,000,000 pesos in tax revenues. It is proposed that new and increased taxes go into effect Jan. 1, 1951.

B. A minimum wage law for all agricultural workers as the first step toward labor and rural legislation designed to raise the level of wages especially in agricultural areas and to improve the living conditions of agricultural and industrial workers.

C. A joint resolution expressing the general policy of Congress to accelerate the carrying out by Congressional enactment of the social reforms and economic development measures recommended by the Economic Survey Mission to the Philippines.

Technical Aid

5. The United States Government agrees, at the request of the Philippine Government expressed herewith, to furnish with the least possible delay technical assistance, particularly in the fields of taxation and revenue collection, social legislation and economic development, to act in an advisory capacity to the appropriate departments or agencies of the Philippine Government.

6. Both Governments will appoint their respective committees to resume the negotiations for a Treaty of Friendship, Commerce and Navigation. It is assumed that these negotiations will re-examine at the same time the provisions of the present trade agreement. It is realized that the Philippines needs special U. S. assistance in trade and privileges for several years.

7. Each Government will be represented in matters f social and economic assistance and co-operation by its own commission, as follows:

(A) A Philippine Council for U. S. Aid will represent the Philippine Government in its relationship with the agency selected by the United States Government (the ECA) to represent the assistance and co-opertion program.

(B) The ECA will be the agency of the United States Government to collaborate with the Philippine Council for U. S. aid.

Its functions will be to advise with the Philippine Government through the said Philippine Council, in planning the use of American social, economic and technical assistance and co-operation, and in advising and assisting the Philippine Government in carrying out the general aims and recommendations for the Economic Survey Mission to the Philippines.

$250 Million Aid

8. In consideration of the determination of the Philippine Government to act boldly and promptly on the major problem designed to fulfill the aspirations of the Filipino people, the President of the United States intends to recommend to the United States Congress the appropriation of the necessary funds that will be required for a social, economic and technical assistance program which will require several consecutive years of substantial aid, envisioned in the report of the Economic Survey Mission at $250,000,000.

9. It is understood that, subject to such modifications as may be agreed upon by the two countries, the operation of the ECA in the program in the Philippines will be along general lines already established by the ECA in its relationships with other sovereign States.

10. A bilateral agreement will be negotiated between the two Governments to give force and effect to the pertinent paragraphs above.

Done at the City of Baguio, Nov. 14, 1950.